

BC TELECOM INC.**NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS**

The Third Annual General Meeting (the "Meeting") of holders of common shares (the "Common Shares") of BC TELECOM Inc. (the "Corporation") will be held on Wednesday, April 24, 1996, at 10:00 a.m. (Pacific Daylight Saving Time) and 1:00 p.m. (Eastern Daylight Saving Time) concurrently in the auditorium at the head office of the Corporation, 3777 Kingsway, Burnaby, British Columbia; at the Holiday Inn on King, 370 King Street West, Toronto, Ontario; and at the Westin Hotel, 11 Colonel By Drive, Ottawa, Ontario for the purposes of:

1. receiving the 1995 Audited Financial Statements of BC TELECOM Inc., including the Consolidated Balance Sheet, the related Consolidated Statements of Earnings and Changes in Financial Position and Auditors' Report thereon;
2. electing directors for the ensuing year;
3. appointing auditors for the ensuing year; and
4. considering such other matters as may properly come before the Meeting or any adjournment thereof.

The Directors of the Corporation have previously fixed and advertised the close of business on March 11, 1996 as the record date for the determination of shareholders entitled to receive this notice.

Your vote is important regardless of the number of Common Shares you own. Shareholders who are unable to attend the Meeting in person are asked to sign, date and return the enclosed form of proxy relating to the Common Shares held by them in the postpaid envelope provided for that purpose.

This meeting is being held concurrently at the three locations set forth in this Notice by two-way audio-video communications pursuant to an order of the Supreme Court of British Columbia, a copy of which is attached as Schedule "A".

To be used at the Meeting, a proxy must be deposited at the office of our transfer agent, Montreal Trust Company, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9 at any time up to 10:00 a.m. (Pacific Daylight Saving Time) on April 22, 1996 (or with respect to any adjournment of the Meeting two days prior to such adjourned Meeting) or with the Chairman of the Meeting in Burnaby, British Columbia, prior to the commencement of the Meeting on the day of the Meeting or the day of the adjournment of the Meeting.

DATED at Burnaby, British Columbia this 28th day of February, 1996.

By order of the Board

Dorothy E. Byrne
Corporate Secretary

PROXY INFORMATION CIRCULAR

GENERAL INFORMATION

This Proxy Information Circular (the "Circular") is furnished in connection with the solicitation of proxies by and on behalf of the management of BC TELECOM Inc. (the "Corporation" or "BC TELECOM") and its Board of Directors. The accompanying form of proxy is for use at the meeting of the holders (the "Shareholders") of the common shares (the "Common Shares") of the Corporation to be held on April 24, 1996 (the "Meeting") and at any adjournment thereof for the purposes set forth in the accompanying Notice of Annual General Meeting.

The Meeting is being held concurrently in three locations: at the auditorium, 3777 Kingsway, Burnaby, British Columbia; at the Holiday Inn on King, 370 King Street West, Toronto, Ontario; and at the Westin Hotel, 11 Colonel By Drive, Ottawa, Ontario by way of two-way audio-video communications pursuant to an order of the Supreme Court of British Columbia ("Court"), a copy of which is attached as Schedule "A" (the "Court Order"). Reference is made to the Court Order for all of the terms set by the Court for the holding of the Meeting.

It is anticipated that this Circular and the accompanying Proxy Form will be mailed to the Shareholders on or about March 22, 1996. Unless otherwise stated, information contained in this Circular is given as at February 28, 1996. The head and registered office of the Corporation is located at 3777 Kingsway, Burnaby, British Columbia V5H 3Z7 and its telephone number is (604) 432-2413 if calling from the Vancouver area or outside Canada, and 1-888-228-4636 if calling from elsewhere in Canada.

This solicitation will be primarily by mail but proxies may also be solicited personally or by telephone by employees of the Corporation (See "Solicitation of Proxies").

VOTING SHARES

On February 28, 1996, there were 122,841,412 Common Shares outstanding. The Common Shares entitle the holders of record on March 11, 1996 to one vote per share at the Meeting. On February 28, 1996, the Anglo-Canadian Telephone Company ("Anglo-Canadian") owned, directly and indirectly, 62,385,717 Common Shares representing approximately 50.8% of the issued and outstanding Common Shares. Anglo-Canadian is beneficially owned and controlled as to 100% of its common shares by GTE of Stamford, Connecticut. There are no other Shareholders, known to the Corporation, who own in excess of 10% of the issued and outstanding Common Shares with the exception of The Canadian Depository for Securities Limited, which may hold in excess of 10% of such shares for the benefit of its participants.

RESTRICTIONS ON ISSUE, TRANSFER AND VOTING OF COMMON SHARES

The "Canadian Telecommunications Common Carrier Ownership and Control Regulations" (the "Regulations") under the *Telecommunications Act* (the "Act") prescribe, inter alia, minimum levels of Canadian ownership and control for facilities-based telecommunications common carriers operating in Canada and for their holding corporations, such as the Corporation, to be maintained in order for those carriers to be eligible to operate under the Act. In addition, the Regulations prescribe rules which entitle the Board of Directors of a holding corporation to prohibit the issue, transfer or voting of shares of that corporation to or by any person who is not a Canadian, as defined in the Act.

Pursuant to the Regulations, in order for subsidiaries of the Corporation to retain their eligibility to operate under the Act, the Corporation is required to ensure that the percentage of the Common Shares of the Corporation owned by Canadians has not decreased, for a period of more than one year, by more than 5% from the percentage owned by Canadians at July 22, 1987 (the "Restriction"). Under the Regulations, the Board of Directors of the Corporation may refuse to allot or issue, and may refuse to register a transfer of, or allow the exercise of voting rights attached to, Common Shares in circumstances that would cause the Corporation to be in violation of the Restriction. The Board of Directors can also require the sale of any Common Shares held in excess of the Restriction. These Regulations permit the Board of Directors of the Corporation to request affidavits or declarations as to ownership, as may be required.

APPOINTMENT OF PROXY AND DISCRETIONARY AUTHORITY

Shareholders who are unable to be present at the Meeting may still vote through the use of proxies. If you are a Shareholder, you should complete, execute and return the enclosed Proxy Form. By doing so, you can participate in the Meeting through the person or persons named on the Proxy Form. Please indicate the way you wish to vote on each item of business and your vote will be cast accordingly. If you do not indicate a preference, the Common Shares represented by the enclosed Proxy Form, if the same are executed in favour of the management nominees named in the Proxy Form and deposited as provided in the Notice of Meeting, will be voted for the election as directors of the nominees named herein, in favour of the appointment of auditors and for all other matters identified in such Notice of Meeting.

Proxies are counted and tabulated by Montreal Trust Company, the transfer agent of the Corporation, in such a manner as to preserve the confidentiality of individual shareholder votes, except: (a) as necessary to meet the applicable legal requirements; (b) in the event of a proxy contest; or (c) in the event a shareholder has made a written comment on the Proxy Form.

DISCRETIONARY AUTHORITY OF PROXY

The enclosed Proxy Form confers discretionary authority upon the proxy nominees with respect to amendments or variations to the matters identified in the Notice of Meeting and other matters which may properly come before the Meeting.

The Board of Directors and management do not know of any such matter which may be presented for consideration at the meeting. However, if any such matter is presented, the proxy will be voted thereon in accordance with the best judgment of the management nominees named in the appropriate Proxy Form.

On any ballot that may be called for at the Meeting, all Common Shares in respect of which the management nominees named in the accompanying Proxy Form have been appointed to act, will be voted or withheld from voting in accordance with the specification of the Shareholder signing the appropriate Proxy Form. If no such specification is made, then the Common Shares will be voted for the election of directors of the nominees named herein, in favour of the appointment of auditors and for all other matters identified in the Notice of Meeting.

To be effective for use at the Meeting, proxies must be received by our transfer agent, Montreal Trust Company, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9 at or before 10:00 a.m. (Pacific Daylight Saving Time) on April 22, 1996 (or with respect to any adjournment of the Meeting two days prior to such adjourned Meeting), or with the Chairman of the Meeting in Burnaby, British Columbia, prior to commencement of the Meeting on the day of the Meeting or the day of any adjournment of the Meeting.

Only Shareholders of record at the close of business on March 11, 1996 of Common Shares will be entitled to vote in respect of the matters to be voted upon at the Meeting, or any adjournment thereof. In certain circumstances a person who has acquired Common Shares subsequent to March 11, 1996 may be entitled to vote the Common Shares upon making a written request to that effect not later than 10 days preceding the date of the meeting, to the Corporate Secretary of the Corporation at the registered office of BC TELECOM Inc., 19th Floor, 3777 Kingsway, Burnaby, British Columbia, V5H 3Z7 and establishing that such Common Shares are owned by such person.

With respect to each matter properly brought before the Meeting, each Shareholder shall be entitled to one vote for each Common Share registered in the name of such Shareholder.

A Shareholder has the right to appoint a person other than the management nominees designated on the appropriate accompanying Proxy Form by crossing out the printed names and inserting the name of the person he or she wishes to act as proxy in the blank space provided, or by completing

another Proxy Form. Proxy Forms which appoint persons other than the management nominees whose names are printed on the Proxy Form should be submitted to the Corporation and the persons so appointed should be notified. The person acting as proxy need not be a Shareholder.

On any ballot that may be called for at the Meeting, all Common Shares in respect of which the person named in a Proxy Form has been appointed to act will be voted or withheld from voting in accordance with the specification of the Shareholder signing such Proxy Form. If no such specification is made, then the Common Shares may be voted in accordance with the best judgment of the person named in the Proxy Form. Furthermore, the person named in the Proxy Form will have discretionary authority with respect to any amendments to the matters set forth in the Notice of Meeting and with respect to any other matters that may properly come before the Meeting, and will be voted on such amendments and other matters in accordance with the best judgment of the person named in such Proxy Form.

REVOCATION OF PROXY

Proxies given by Shareholders may be revoked at any time prior to their use by instrument in writing executed by the Shareholder or by his or her attorney authorized in writing or, if the Shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the Montreal Trust Company, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9, at any time up to and including 4:00 p.m. on the last business day preceding the day of the Meeting or any adjournment thereof, or with the Chairman of the Meeting in Burnaby, British Columbia, on the day of the Meeting or any adjournment thereof, or in any other manner permitted by law, including, without limitation, personal attendance at the Meeting.

If the instrument of revocation is deposited with the Chairman in Burnaby, British Columbia, on the date of the Meeting or any adjournment thereof, the instrument will not be effective with respect to any matter on which a vote has already been cast pursuant to such Proxy.

SOLICITATION OF PROXIES

The cost of this solicitation of proxies will be borne by the Corporation. The Corporation will reimburse brokers, custodians, nominees and other fiduciaries for the proper charges and expenses incurred in forwarding this Circular and related materials to beneficial owners of Common Shares. In addition to solicitation by mail, officers, directors and regular employees of the Corporation may, without additional compensation, solicit proxies personally by telephone.

ANNUAL MEETING BUSINESS

ELECTION OF DIRECTORS

The Articles of the Corporation provide that the Board of Directors shall consist of not less than three nor more than eighteen members, each of whom shall be elected at an annual general meeting for a term of one year. The Directors have, pursuant to the by-laws, established that the number of directors be eleven. The following table sets out the information respecting all persons proposed to be nominated for election as directors. All of the persons named are currently directors of the Corporation except David L. Emerson.

None of the persons named in this table holds any shares of Anglo-Canadian or GTE other than Gordon F. MacFarlane, Michael T. Masin and Thomas W. White who own, respectively, 1,716, 3,462, and 9,622 common shares of GTE. The number of shares beneficially owned, or over which control or direction is exercised, not being within the knowledge of the Corporation, has been supplied by the individual concerned.

Name and Office Presently Held with BC TELECOM Inc. ⁽²⁾	Present Principal Occupation	Date Became Director	Common Shares Beneficially Owned or Controlled
Brian Albert Canfield Chairman and Chief Executive Officer	Chairman and Chief Executive Officer of BC TELECOM Inc. and BC TEL	May 1, 1993	21,483
George Neldon (Mel) Cooper, C.M., O.B.C.	President, Seacoast Communications Group Inc. (Broadcasting)	May 1, 1993	2,050
David Lee Emerson ⁽⁴⁾	President & Chief Executive Officer, Vancouver International Airport Authority	-	-
Mary Rendina Kathleen Hamilton, Q.C., O.B.C. ⁽¹⁾	Corporate Director	May 1, 1993	600
Robert Horne Lee, O.B.C. ⁽¹⁾	President, Prospero Group of Companies (Commercial real estate sales, investment and property management)	May 1, 1993	2,934
Gordon Frederick MacFarlane, O.B.C.	Corporate Director	May 1, 1993	11,908
Michael Terry Masin ⁽³⁾⁽⁵⁾	Vice Chairman & President - International, GTE Corporation (Consolidated group of telecommunications companies)	September 27, 1995	2,002
John Wilson Pitts	Corporate Director	May 1, 1993	2,000
Barbara Joyce Rae, C.M., O.B.C. ⁽¹⁾	Corporate Director	May 1, 1993	972
Thomas William White ⁽³⁾	President, GTE Telephone Operations Group (Consolidated group of telecommunications companies)	April 26, 1995	2,002
William Robert Wyman	Corporate Director	May 1, 1993	2,291

NOTES:

- (1) A member of the Audit Committee.
- (2) All of the directors of the Corporation are also directors of BC TEL.
- (3) Also a director of a number of subsidiaries of GTE.
- (4) Mr. Emerson held the position of President of the British Columbia Trade Development Corporation until his appointment as President and Chief Operating Officer of the Vancouver International Airport Authority in April 1992. He was appointed President and Chief Executive Officer of the Airport Authority in October of the same year.
- (5) Mr. Masin held the position of Managing Partner at the law firm O'Melveny & Myers in New York until October 1993, at which time he was appointed Vice Chairman of GTE Corporation, a position he continues to hold. He was also appointed President - International, GTE Corporation in July 1995.

Management does not expect that any of the nominees will be unable to serve as a director but, in that event, discretionary authority may be exercised to vote for a substitute.

EXECUTIVE COMPENSATION

1. SUMMARY COMPENSATION TABLE

The following table sets forth the summary of compensation of the Chief Executive Officer and the four named executive officers of the Corporation and its subsidiaries for the year ended December 31, 1995.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensation Awards	All Other Compensation \$(3)
Name and Principal Position as of February 28, 1996	Year	Salary (\$)	Bonus \$(1)	Other Annual Compensation \$(2)	Securities Under Options Granted (#)	
BRIAN A. CANFIELD CHAIRMAN & CHIEF EXECUTIVE OFFICER, BC TELECOM Inc. and BC TEL	1995	450,000	232,092		80,000	9,342.00
	1994	450,000	294,784			
	1993	450,000	201,370			
DONALD A. CALDER EXECUTIVE VICE-PRESIDENT - NETWORK SERVICES, BC TELECOM Inc. and BC TEL	1995	221,792	91,310		40,000	10,451.00
	1994	175,000	34,330			
	1993	-	-			
LEO J. DOOLING RETIRED (4)	1995	239,583	93,633		32,800	
	1994	225,000	129,160			
	1993	200,000	86,145			
ROY A. OSING VICE-PRESIDENT - LONG DISTANCE SERVICES, BC TEL	1995	225,000	78,390		30,000	
	1994	225,000	85,117			
	1993	210,000	97,387			
FARES F. SALLOUM EXECUTIVE VICE-PRESIDENT - COMMUNICATION SERVICES, BC TELECOM Inc. and BC TEL	1995	285,000	143,362		40,000	6,604.00
	1994	225,000	155,250			
	1993	180,000	82,240			

NOTES:

- (1) 1993 and 1994 bonus amounts paid under the Variable Incentive Plan in recognition of the achievement by executive officers of corporate and individual objectives were paid in part in December of the year in which they were earned and the balance was paid in February of the following year. 1995 bonus amounts paid under the Variable Reward Plan which replaced the Variable Incentive Plan were paid in February 1996.
- (2) Perquisites and other personal benefits do not exceed the lesser of \$50,000.00 and 10 percent of the total of the annual salary and bonus of the named executive officers for the financial year and therefore are not disclosed.
- (3) This figure represents the aggregate of payment in lieu of earned vacation in 1995 and employer contribution under the Employee Share Purchase Plan (the "ESPP") to which all employees of the BC TELECOM group may subscribe. Under the ESPP, the employer contributes \$1.00 for every \$4.00 paid by the employee towards the market purchase of BC TELECOM Inc. common shares.
- (4) Leo J. Dooling was Executive Vice-President - Corporate Services and Chief Financial Officer of BC TELECOM Inc. and BC TEL in 1995 and retired on January 31, 1996.

2. LONG-TERM INCENTIVE COMPENSATION

BC TELECOM Inc. and its subsidiaries provide long-term incentive compensation to key employees, including executive officers, in the form of the grant of options to purchase common shares of BC TELECOM Inc.

The following table sets forth individual grants of options during the financial year ended December 31, 1995 to the named executive officers.

OPTION/SAR GRANTS DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR

Name	Securities Under Options/SARs Granted (#)(1)(2)(3)	% of Total Options/SARs Granted to Employees in Financial Year (4)	Exercise or Base Price (\$/Security) (5)	Market Value of Securities Underlying Options/SARs on the Date of Grant (\$/Security)	Expiration Date
BRIAN A. CANFIELD	LISOP 40,000 BCTSOP 40,000	13.14%	24.25	24.375	February 22, 2005
DONALD A. CALDER	LISOP 20,000 BCTSOP 20,000	6.57%	24.25	24.375	February 22, 2005
LEO J. DOOLING	LISOP 15,000 BCTSOP 15,000	4.93%	24.25	24.375	February 22, 2005
	BCTSOP 2,800	.46%	23.125	23.000	October 25, 2005
ROY A. OSING	LISOP 15,000 BCTSOP 15,000	4.93%	24.25	24.375	February 22, 2005
FARES F. SALLOUM	LISOP 20,000 BCTSOP 20,000	6.57%	24.25	24.375	February 22, 2005

NOTES:

- (1) On February 22, 1995, the Board of Directors approved the granting of options under the Long-Term Incentive Share Option Plan (the "LISOP") and the discontinuance of LISOP in regard to the granting of any further options thereafter. Concurrently, the Board of Directors also approved the granting of options together with an equal number of in tandem Share Appreciation Rights ("SARs") and retention options under the BC TELECOM Share Option Plan (the "BCTSOP"), subject to the approval of the appropriate regulatory authorities and the shareholders, which approvals were subsequently obtained. The Board of Directors has since granted options, in tandem SARs and retention options under the BCTSOP and will continue to do so from time to time in accordance with the terms and conditions of the BCTSOP.
- (2) An in tandem SAR under BCTSOP permits the optionee to receive the value of the appreciation in the share option to which the SAR is associated without exercising the option. The in tandem SAR cannot be exercised unless the option to which it is associated is exercisable. The exercise of the SAR cancels the optionee's right to exercise the associated option and vice versa. The retention options provide the optionee with an additional option to acquire the same number of shares acquired upon exercise of the initial option at a market price determined at the time the initial option is exercised and is exercisable after three years from the date the initial option is exercised, provided that the optionee has continued to hold the initial shares acquired on the exercise of that initial option.
- (3) The options or the in tandem SARs may be exercised, on a cumulative basis, as to 33 1/3% on and after each anniversary date of the grant.
- (4) Grants under LISOP and BCTSOP are combined for the purpose of reporting this figure.
- (5) The exercise price is the market value on the last trading day prior to the date of grant.

The following table sets forth each exercise of options during the financial year ended December 31, 1995 by the named executive officers.

AGGREGATED OPTION/SAR EXERCISES DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR AND FINANCIAL YEAR-END OPTION/SAR VALUES

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options/SARs at FY-End (#)		Value of Unexercised in-the-Money Options/SARs at FY-End (\$)(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
BRIAN A. CANFIELD			116,750	107,550	493,675.00	145,212.50
DONALD A. CALDER	1,975	3,715.57	4,878	44,878	6,097.50	36,097.50
LEO J. DOOLING	6,700	26,900.00	23,900	43,700	78,250.00	57,125.00
ROY A. OSING			20,025	41,425	57,118.75	54,893.75
FARES F. SALLOUM			25,450	50,150	95,500.00	55,062.50

NOTE: The value of in-the-Money Options/SARs at the Financial Year-End was calculated based on the market value on the last trading day of the financial year, less the exercise price of those in-the-Money Options/SARs.

3. DEFINED BENEFIT PLANS

Executive Officers of the Corporation participate in the contributory Pension Plan for Management and Exempt Employees ("Management Plan") and the non-contributory Supplementary Income Plan ("S.I.P.") for Executives (together called the "Plans"). The S.I.P. supplements the Management Plan ensuring a total benefit at retirement determined as 2% of a person's highest three years' average Salary and a person's highest five years' average bonus times the total number of years of credited service to a maximum of 35. The amount of bonus included for any year prior to averaging is capped at the lesser of actual bonus received and individual target bonus, assuming minimum performance criteria met. If retirements occur prior to June 1, 1998, the bonus component is averaged over a decreasing period measured from June 1, 1993. The following table shows the total of the annual retirement benefits payable from the Plans assuming retirement at age 60 or over:

PENSION PLAN TABLE

Remuneration \$(1)	Years of Credited Service				
	15	20	25	30	35
175,000	\$52,500	\$70,000	\$87,500	\$105,000	\$122,500
200,000	60,000	80,000	100,000	120,000	140,000
225,000	67,500	90,000	112,500	135,000	157,500
250,000	75,000	100,000	125,000	150,000	175,000
300,000	90,000	120,000	150,000	180,000	210,000
350,000	105,000	140,000	175,000	210,000	245,000
400,000	120,000	160,000	200,000	240,000	280,000
450,000	135,000	180,000	225,000	270,000	315,000
500,000	150,000	200,000	250,000	300,000	350,000
550,000	165,000	220,000	275,000	330,000	385,000
600,000	180,000	240,000	300,000	360,000	420,000
650,000	195,000	260,000	325,000	390,000	455,000
700,000	210,000	280,000	350,000	420,000	490,000
750,000	225,000	300,000	375,000	450,000	525,000
800,000	240,000	320,000	400,000	480,000	560,000
850,000	255,000	340,000	425,000	510,000	595,000

NOTES:

- (1) The compensation covered by S.I.P. for each of the named executive officers is based on their respective Salaries and their respective Bonuses or portion thereof shown in the Summary Compensation Table.
- (2) The benefit under the Plans is payable for a member's lifetime with a 60% benefit payable to a surviving spouse. The benefit payable under the Plans is not reduced by integration with the Canada Pension Plan or Old Age Security benefits.

The years of credited service as of December 31, 1995 for pension plan purposes for the named executive officers are as follows: Brian A. Canfield, 39.5 years; Donald A. Calder, 24.6 years; Leo J. Dooling, 34.6 years; Roy A. Osing, 26.6 years; and Fares F. Salloum, 22.5 years.

4. COMPOSITION OF THE COMPENSATION COMMITTEE

The following individuals served as members of the Corporation's Human Resources and Compensation Committee (the "Committee") during 1995:

<u>Member</u>	<u>Duration of Membership During 1995</u>
W. Robert Wyman - Chair	January 1 - December 31
Kent B. Foster	January 1 - September 27
James L. Johnson	January 1 - April 24
Michael T. Masin	September 27 - December 31
Gordon F. MacFarlane - former Chairman and Chief Executive Officer, BC TEL.	January 1 - December 31
John W. Pitts	January 1 - December 31
Tom W. White	April 24 - December 31

5. REPORT ON EXECUTIVE COMPENSATION

BC TELECOM's executive compensation program is administered by the Human Resources and Compensation Committee (the "Committee") which is composed of five non-employee directors. The main purpose of the Committee is to establish and effect a plan for executive succession and continuity and a plan for executive compensation. The Committee met eleven times in 1995 to receive information on and make determinations regarding these matters, in accordance with policies approved by the Board of Directors. Recommendations for changes to the policies are reviewed on a periodic basis to ensure they remain current, competitive and consistent with the Corporation's overall goals.

The Committee develops and recommends to the Board for approval the Corporation's executive compensation philosophy and guidelines and its conclusions regarding the compensation paid to the executive management. The Committee oversees the terms of reference of and selection of outside consultants to review executive compensation policies for BC TELECOM.

Compensation Philosophy and Determination

The guiding philosophy of the Committee in determining compensation for executives is the need to provide a compensation package that is competitive and motivating so as to attract, hold and inspire qualified executives; and will encourage performance by executives to enhance the growth and profitability of BC TELECOM. Achievement of these objectives will contribute to an increase in shareholder value. The Committee has adopted a variable compensation plan to create stronger links between the executives' compensation and the Corporation's strategic objectives, and to optimize the balance between the Corporation's short term and long term objectives.

The Committee positions its executive compensation (including salaries and incentive awards) at or near (adjusted for size, complexity and performance) the median of the range of compensation levels for comparator companies. The comparator companies provide a wide range of products and services and they experience a variety of different business imperatives, but they demand executive talents similar to those required by BC TELECOM.

The Committee selects outside consultants, expert in executive compensation practices, to conduct surveys to provide competitive data reflecting comparable knowledge, skills and talents and the compensation paid therefor. Variables such as corporate size and earnings, rates of growth, complexities of management related to the transition from regulated to competitive markets and development of new business opportunities and sources of revenue all have an influence on compensation levels and are analyzed and considered in setting compensation.

The salary ranges and structure for 1995, including target bonuses, were based upon market analyses carried out in 1994 and confirmed in late 1995 and reflect competitive practices in the marketplace in which the Corporation competes to attract and retain qualified executive management.

Compensation Mix

The Corporation's executive compensation reward program has five components; base salary, variable incentive, share options, supplemental pensions, and perquisites. All the components are designed to incent the executive to increase shareholder value.

Cash compensation as a combination of base salary and the opportunity to earn a variable incentive bonus was first introduced for the executives with the implementation of the Variable Incentive Plan in 1992. Changes to the base salary of specific executives since then have been made to reflect changes in the executive's area of responsibility or to reflect upward movement within the established base salary range for the executive's specific position.

The Variable Incentive Plan was introduced to provide a link between executive incentive awards and corporate strategic goals. Performance measurements focused on corporate objectives of earnings per share, cost per line, quality of service measurements and on achieving individual objectives such as the promotion of teamwork and improved communications with employees at all levels. A range of percentages of base salary was determined as a target incentive for each executive. The Committee could, in certain circumstances, apply a multiple to this percentage, depending upon the achievements of corporate performance and the achievement of individual goals.

The Variable Incentive Plan was replaced in 1995 by the Variable Reward Plan. It incorporates many of the elements of the original plan and adds improved performance measurement tools which reinforce the transition of the Corporation's business from one that was predominantly monopolistic to one that is primarily competitive. In particular, the Variable Reward Plan utilizes, as performance measurement tools, the Balanced Scorecard and the 360° Feedback. The Balanced Scorecard measures an executive's performance from the perspectives of the shareholders, the customers and the employees and measures the executive's ability to be innovative and to learn. The 360° Feedback process augments the Balanced Scorecard by providing confidential feedback to executives on their performance from their peers, their customers, their direct reports and their manager (for most executives, this is the Chief Executive Officer). BC TELECOM's successful performance in 1995 in generating revenue, reducing costs and providing competitive customer service, resulted in incentive payments being made to the executives, in accordance with the Variable Reward Plan formula, under the direction of the Committee.

The Long Term Incentive Share Option Plan ("LISOP"), until its discontinuance in early 1995, and subsequently the BC TELECOM Share Option Plan ("BCTSOP") gives the Committee the opportunity to grant share options (LISOP was limited to share options), in tandem share appreciation rights ("SARs") and retention options to executives. The amount of the grant is determined by the individual executive's role in achieving longer-term results. The BCTSOP maintains a direct link between the creation of shareholder value and individual executive performance.

An in tandem SAR granted under the BCTSOP permits the optionee to receive the value of the appreciation in the share option to which the SAR is associated without exercising the option. The in tandem SAR cannot be exercised unless the option to which it is associated is exercisable. The exercise of the SAR cancels the optionee's right to exercise the associated option and vice versa. The retention options provide the optionee with an additional option to acquire the same number of shares acquired upon exercise of the initial option at a market

price determined at the time the initial option is exercised and is exercisable after three years from the date the initial option is exercised, provided that the optionee has continued to hold the initial shares acquired on the exercise of that initial option.

Grants of share options and in tandem SARs are based on the market price of the Common Shares of BC TELECOM on the day preceding the date of the grant. Options/SARs are granted for terms of up to ten years. Options granted under LISOP or BCTSOP in 1995 have ten year terms and are exercisable as to 33 1/3% of the shares granted after the first year, 33 1/3% of the shares granted after the second year and 33 1/3% of the shares granted after the third year.

As part of the overall executive compensation program, the Corporation has established a non-contributory supplementary income plan ("S.I.P.") which provides for an amount to be paid to a retired executive officer as a supplement to the amount payable under the Corporation's contributory pension plan for management. Both these plans are referred to in this circular under Section 3 titled "Defined Benefit Plans".

The Board of Directors amended S.I.P. effective in 1995 to include the variable component of some executives' cash compensation in the calculation of the benefit payable under S.I.P. at retirement. This amendment aligns the S.I.P. with the Committee's overall compensation philosophy of maintaining a competitive compensation package and ensuring that there are strong links between compensation and the Corporation's strategic objectives.

The Committee noted that during 1995 two of the executives became entitled to retire and receive the maximum pension permissible under the terms of S.I.P. While they continue to work as employees of the Corporation, these executives are not acquiring any additional retirement benefit and are forfeiting their entitlement to payments under S.I.P. Having determined that it is in the corporate interest to retain both of these executives as employees and in recognition of the commitment of these executives to the corporate interest, the Committee approved a retention plan which would provide an additional amount to those executives to incent them to continue as employees rather than retire.

The Chief Executive Officer

The principles for establishing, measuring and determining the compensation of the Chief Executive Officer follow the same philosophy as for the other executives, including named executive officers. The Committee uses a competitive frame of reference which matches the median of the comparators used by the Corporation (at target). This also extends to the compensation mix for the Chief Executive Officer which is targeted to match the distribution found in most of the comparators with respect to the office of chief executive officer.

The salary structure of the Chief Executive Officer is established to be competitive with median target cash compensation levels. When target bonuses are added to the mid-point, the resulting target cash compensation is at the median competitive level.

Report presented by:

W.R. Wyman (Chair)
J.W. Pitts

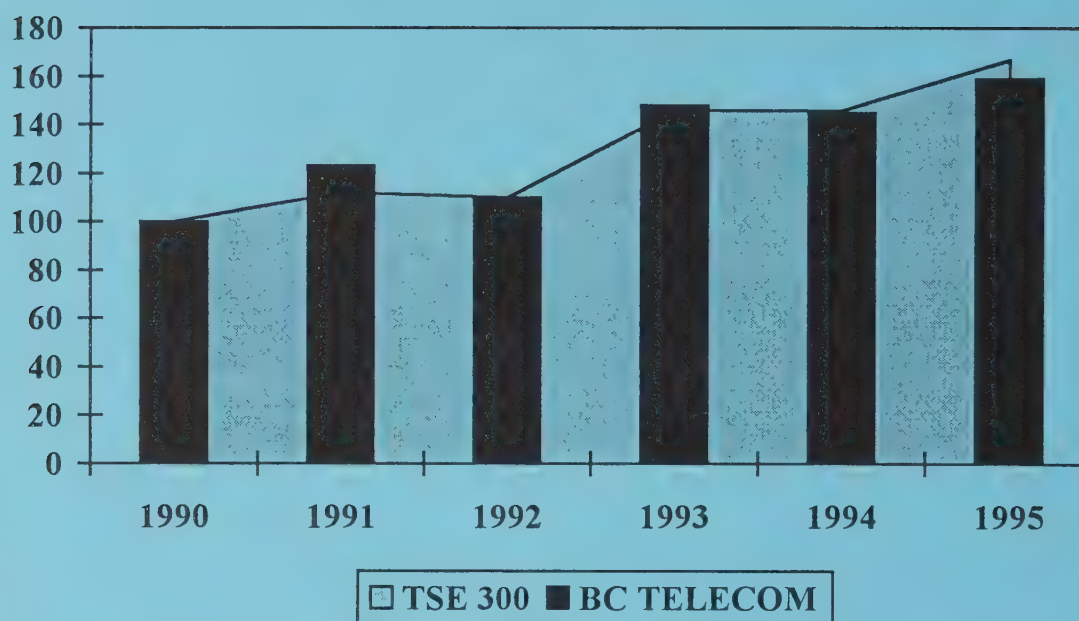
G.F. MacFarlane
T.W. White

M.T. Masin

6. PERFORMANCE GRAPH

The following graph compares the cumulative total shareholder return over the past five years ending December 31 for \$100 invested in BC TEL ordinary shares (exchanged for BC TELECOM Inc. common shares effective May 1, 1993) and the TSE 300 Index. Cumulative total shareholder return reflects both the change in share price and the reinvestment of dividends at 100% of the market price on each of the dividend payment dates.

Cumulative Total Return (\$)



	1990	1991	1992	1993	1994	1995
BC TELECOM	100	123	110	148	145	159
TSE 300	100	112	110	146	146	167

NOTES:

- (1) Ordinary shares of British Columbia Telephone Company were exchanged for common shares of BC TELECOM Inc. on a one-for-one basis effective May 1, 1993, as part of the arrangement between the Corporation and BC TEL, pursuant to which all holders of ordinary shares of BC TEL became shareholders of the Corporation.
- (2) Had dividends on the ordinary shares of BC TEL to April 30, 1993 and the common shares of BC TELECOM Inc. thereafter been reinvested through their respective Dividend Reinvestment Plans at 95% of the market price, the value of the \$100 invested on December 31, 1990 would have grown to \$161 by December 31, 1995.

7. COMPENSATION OF DIRECTORS

The following table describes the arrangements under which directors of the Corporation who were not employees were compensated during the year ended December 31, 1995.

BOARD	
Members' Quarterly Fee	\$3,500 per quarter
Members' Meeting Fee	\$1,000 per meeting
Chairman's Meeting Fee	\$1,200 per meeting
COMMITTEES	
Members' Quarterly Fee	\$ 500 per quarter
Members' Meeting Fee	\$1,000 per meeting
Chairman's Quarterly Fee	\$1,000 per quarter
Chairman's Meeting Fee	\$1,000 per meeting

All directors of the Corporation were also directors of BC TEL and the foregoing fees were paid as to 50% by each corporation. Directors also received reimbursement for out-of-pocket expenses.

No fees were paid to the Chairman of the Board, as the by-laws provide that employees are not paid director's fees.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

The Corporation, together with all affiliates of GTE, has directors and officers liability insurance. The Corporation has a total of \$125 million of coverage for both directors and officers as a group. The Corporation through its by-laws, indemnifies all directors and officers and is liable in respect of directors and officers for \$1 million deductible per claim payable under such insurance.

APPOINTMENT OF AUDITORS

Arthur Andersen & Co., Chartered Accountants, of 1177 West Hastings Street, Vancouver, British Columbia, will be nominated for appointment as auditors of the Corporation to hold office until the close of the next annual general meeting. Such auditors were appointed auditors of the Corporation at the Annual General Meeting on April 26, 1995 and were first appointed auditors of BC TEL on March 14, 1968.

Representatives of Arthur Andersen & Co. are expected to be present at the Meeting and may make any statement or answer any questions.

CORPORATE GOVERNANCE

Effective corporate governance has always been regarded by the Board of Directors and the management of BC TELECOM as an essential element in carrying out their fiduciary duties to the Corporation. We define corporate governance at BC TELECOM as a system of mutually reinforcing principles, structures and processes designed to ensure effective supervision of the business and affairs of the Corporation, with the objective of enhancing shareholder value.

In spring 1994, the Board of Directors of BC TELECOM established the Board Governance Committee as a standing committee of the Board. The first task of the Committee was to conduct a comprehensive review of corporate governance at BC TELECOM and to prepare a report with recommendations that would continue to assure BC TELECOM an effective corporate governance system.

The Committee met ten times in formal sessions to review the following aspects of governance:

- (1) Terms of Reference: the Committee drafted clear definitions of the roles, responsibilities, accountabilities and interrelationship of Directors, Board Committees and management;
- (2) Committees: the Committee examined the rationale and terms of reference of each of the Board Committees and their relationship to the Board and to management;
- (3) Policies and Structure: the Committee examined existing policies and structures and developed new ones where appropriate to strengthen the Board's ability to carry out its responsibilities;
- (4) Information: the Committee examined the availability, relevance and timeliness of information required by the Board;
- (5) Board Composition: the Committee reviewed the needs of the Board and developed an approach to director selection;
- (6) Corporate Governance System: the Committee reviewed existing processes and developed new ones to manage and continuously improve corporate governance at BC TELECOM and to ensure the Board's ability to operate independently of management.

The Committee completed its review in May 1995, and submitted its Report to the Board of Directors in June. Following extensive discussion of the Committee's Report by the full Board, the Report was adopted as the BC TELECOM Board Policy Manual in July 1995.

The Manual is a solid base for ensuring the Board that BC TELECOM is undertaking its responsibilities in the most effective manner possible. Given the dynamic nature of the market in which BC TELECOM operates, the Board policies are reviewed on an ongoing basis. The Manual will be comprehensively reviewed on an annual basis, modified as necessary and reissued to ensure it continues to reflect policies that maximize the effectiveness of the BC TELECOM Board.

In February 1995, the Toronto Stock Exchange adopted the recommendation of its Committee on Corporate Governance in Canada. The recommendation is part of the Committee Report titled "*Where Were The Directors*" (the "TSE Report") containing a series of guidelines for improved corporate governance in Canada. The guidelines address matters such as the composition and mandate of corporate boards, independence of corporate boards from management, and the effectiveness and education of board members. The recommendation adopted by the Exchange is that each corporation listed on the Exchange be required to disclose in its Annual Report or Information Circular its approach to corporate governance in a "Statement of Corporate Governance Practices", with reference to the guidelines contained in the TSE Report and, where the Corporation's system is different from the guidelines, to explain the difference. BC TELECOM's statement of corporate governance practices is set forth in Schedule "B", in compliance with this requirement.

AVAILABILITY OF DOCUMENTS

The Corporation will provide to any person or company, upon request to the secretary of the Corporation, one copy of any of the following documents:

- (a) the Corporation's latest Annual Information Form, together with any document, or the pertinent pages of any document, incorporated therein by reference, filed with the applicable securities regulatory authorities;
- (b) the comparative financial statements of the Corporation filed with the applicable securities regulatory authorities for the Corporation's most recently completed financial year in respect of which such financial statements have been issued, together with the report of the auditor thereon; Management's Discussion and Analysis and any interim financial statements of the Corporation filed with the

applicable securities regulatory authorities subsequent to the filing of the annual financial statements;
and

- (c) the information circular of the Corporation filed with the applicable securities regulatory authorities in respect of the most recent annual meeting of shareholders of the Corporation which involved the election of directors.

Copies of the above documents will be provided, upon request to the secretary of the Corporation, free of charge to security holders of the Corporation. The Corporation may require the payment of a reasonable charge from any person or company who is not a security holder of the Corporation, who requests a copy of any such document.

The contents and sending of this proxy information circular were approved by the directors of the Corporation on February 28, 1996.

DOROTHY E. BYRNE
Corporate Secretary

SCHEDULE "A"

No. A960840
VANCOUVER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

**IN THE MATTER OF SECTION 144(I)
OF THE *CANADA BUSINESS CORPORATIONS ACT*,
R.S.C. 1985 c. C-44 AS AMENDED**

**AND IN THE MATTER OF
THE ANNUAL GENERAL MEETING OF BC TELECOM INC.**

DOROTHY E. BYRNE

PETITIONER

ORDER

BEFORE MASTER)
PATTERSON)

MONDAY, THE 11TH
DAY OF MARCH, 1996

THIS PETITION coming on for hearing *ex parte* this day at Vancouver, British Columbia;
AND UPON HEARING Barry T. Gibson, Esq., Counsel for the Petitioner; AND UPON READING the
Petition herein, and the Affidavits of Dorothy E. Byrne and Elizabeth J. Harrison, Q.C., both sworn the
6th day of March, 1996 and filed herein;

THIS COURT ORDERS that:

- a) the Annual General Meeting (the "Meeting") of BC TELECOM INC., to be held on Wednesday, the 24th day of April, 1996, be held concurrently by way of two-way audio-video communication at the Head Office of BC TELECOM Inc. at 3777 Kingsway, Burnaby, British Columbia; at the Holiday Inn on King, 370 King Street West, Toronto, Ontario; and at the Westin Hotel, 11 Colonel By Drive, Ottawa, Ontario; at 10:00 a.m. (Pacific Daylight Savings Time) and 1:00 p.m. (Eastern Daylight Savings Time);
- b) If the said two-way audio-video communication should fail to operate, the Meeting shall continue with the aforesaid locations linked by audio communication; and
- c) The Meeting be otherwise called and held in accordance with the By-Laws of BC TELECOM INC., the *Canada Business Corporations Act*, and securities laws applicable to BC TELECOM INC.

THIS COURT FURTHER ORDERS that the Petitioner be granted leave at any time to seek to vary this Order.

BY THE COURT

"Paul Beagan"

DEPUTY DISTRICT REGISTRAR

"B.T. Gibson"

COUNSEL FOR THE PETITIONER

SCHEDULE "B"

TSE Report Guideline The Board should:

BC TELECOM Comparison Comments

<p>(1) explicitly assume responsibility for the stewardship of the corporation and, as part of the overall stewardship responsibility, assume responsibility for the following matters:</p> <ul style="list-style-type: none"> (i) adoption of a strategic planning process; (ii) the identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks; (iii) succession planning, including appointing, training and monitoring senior management; (iv) a communications policy for the corporation; and (v) the integrity of the corporation's internal control and management information systems; 	<p>BC TELECOM meets this guideline.</p> <ul style="list-style-type: none"> • The Terms of Reference for the Board set forth in the Board Policy Manual confirm the Board's responsibility to manage the business and affairs of the Corporation and outline the Board's responsibilities in each of the areas specified by the TSE Report Guidelines. • To the extent any of these responsibilities have been delegated to a Committee of the Board, the Committee's Terms of Reference also describe these responsibilities. • The Corporation's dedicated Investor Relations group monitors and responds to queries from shareholders and investment institutions. • The Terms of Reference for the Board set forth in the Board Policy Manual identify those matters which require prior approval by the Board.
<p>(2) be constituted with a majority of individuals who qualify as unrelated directors. An unrelated director is a director who is independent of management and is free from any conflicting interest;</p>	<p>BC TELECOM meets this guideline.</p> <ul style="list-style-type: none"> • A majority of the Corporation's directors are unrelated to the Corporation or to GTE Corporation, BC TELECOM's only significant shareholder.
<p>(3) disclose for each director whether he/she is related to the Corporation or to a significant shareholder and how that conclusion was reached;</p>	<p>BC TELECOM meets this guideline.</p> <ul style="list-style-type: none"> • The only director who is related to the Corporation is Brian Canfield, Chairman and Chief Executive Officer. • All other directors and nominees for election as directors are unrelated to the Corporation in that none of them: <ul style="list-style-type: none"> ➢ has worked for the Corporation within the last three years (Gordon MacFarlane is the only former employee of the Corporation and he retired more than five years ago); ➢ has any material business relationship with the Corporation; ➢ has received remuneration from the Corporation other than directors' fees. • Nine of the eleven directors and nominees for election as directors are unrelated to GTE Corporation, the Corporation's only significant shareholder.

TSE Report Guideline
The Board should:

BC TELECOM Comparison Comments

(4)	appoint a committee of directors composed exclusively of outside, i.e. non-management directors, a majority of whom are unrelated directors, with the responsibility for proposing to the full board new nominees to the board and for assessing directors on an ongoing basis;	<p>BC TELECOM meets this guideline.</p> <ul style="list-style-type: none"> The Board Governance Committee has this responsibility and is composed exclusively of unrelated directors.
(5)	implement a process for assessing the effectiveness of the board as a whole, the committees of the board, and the contribution of individual directors;	<p>BC TELECOM meets this guideline.</p> <ul style="list-style-type: none"> The Board Governance Committee has each of these responsibilities as part of its Terms of Reference. The Board Policy Manual describes the approach and a process for each of these issues.
(6)	provide an orientation and education program for new recruits to the board;	<p>BC TELECOM meets this guideline.</p> <ul style="list-style-type: none"> The Board Governance Committee has this responsibility as part of its Terms of Reference. The Board Policy Manual recommends the establishment of such a program and one is now being developed.
(7)	undertake, where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making;	<p>BC TELECOM meets this guideline.</p> <ul style="list-style-type: none"> The Board Governance Committee has reviewed the size of the Board as part of its Report and has made a recommendation to the Board that the current size (eleven) is appropriate at this time. Board size is reviewed on an annual basis.
(8)	review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director;	<p>BC TELECOM meets this guideline.</p> <ul style="list-style-type: none"> The Board Governance Committee is charged with the responsibility of reviewing director compensation annually and making recommendations to the Board as required.
(9)	compose its committees of outside directors, a majority of whom are unrelated directors;	<p>BC TELECOM meets this guideline.</p> <ul style="list-style-type: none"> The following have been established as standing committees of the Board: Audit, Pension Trust, Human Resources and Compensation, and Board Governance. Their mandates and activities are described in their respective Terms of Reference in the Board Policy Manual. Committees are composed exclusively of outside directors.

**TSE Report Guideline
The Board should:**

BC TELECOM Comparison Comments

(10) expressly assume responsibility for, or assign to a committee of directors the general responsibility for, developing the corporation's approach to governance issues;	<p>BC TELECOM meets this guideline.</p> <ul style="list-style-type: none"> • The Board Governance Committee has this responsibility expressly as part of its Terms of Reference and is responsible for the ongoing review of Board Governance at BC TELECOM.
(11) develop position descriptions for the board and for the CEO, involving the definition of the limits to management's responsibilities. In addition, the board should approve or develop the corporate objectives which the CEO is responsible for meeting.	<p>BC TELECOM meets this guideline.</p> <ul style="list-style-type: none"> • The Board Policy Manual has sets forth Terms of Reference for the CEO and the Board which will be reviewed annually. • A comprehensive CEO review process is set forth in the Board Policy Manual and it includes an evaluation of the CEO's performance against objectives established in the Corporation's strategic and tactical plans approved by the Board.
(12) establish structures and procedures that enable the board to function independently of management;	<p>BC TELECOM meets this guideline.</p> <ul style="list-style-type: none"> • The Board Governance Committee has thoroughly assessed and concluded that the Board can function with full independence of management. • The Board Policy Manual reinforces the Board's commitment to Board independence by requiring that: <ul style="list-style-type: none"> ➤ the Board Governance Committee act as a forum for concerns of individual directors about matters that are not easily or readily discussed at full Board meetings; ➤ any director can request at any time, through the Board Governance Committee, a meeting restricted to outside members of the Board; ➤ in-camera sessions restricted to Board members and, if requested, outside Board members only, be scheduled on the agenda of each Board meeting; ➤ the number of inside directors on the Board never exceed the lesser of three or 1/3 of the total Board; ➤ all committees be composed entirely of outside directors; ➤ a well-developed CEO review and evaluation process be conducted annually.

**TSE Report Guideline
The Board should:**

BC TELECOM Comparison Comments

<p>(13) establish an audit committee, composed only of outside directors, with well-defined roles and responsibilities.</p>	<p>BC TELECOM meets this guideline.</p> <ul style="list-style-type: none"> • The Audit Committee has clear terms of reference which are consistent with these guidelines. • The Audit Committee's composition is consistent with these guidelines.
<p>(14) implement a system to enable individual directors to engage outside advisors at the Corporation's expense.</p>	<p>BC TELECOM meets this guideline.</p> <ul style="list-style-type: none"> • A committee may request the assistance of external advisors to research, investigate and report on matters within the committee's Terms of Reference.



say hello

Mon 09:40:37

AR22



send a message

Sympatico™ has everything customers need to search the Net or send and receive e-mail.

Easy-to-use online services have made Sympatico the number one Internet service in British Columbia. And this year we're picking up speed.

Jump & Tic

HOME PAGE

SEARCH

Jump complete

Jump & Tic / Local Site.html

Stop



Load Original

About our web site

Load Images

Jump & Tic Local Site.html

A large, close-up, slightly grainy image of a man's face, smiling and looking towards the camera. He is wearing a dark shirt. The lighting is warm and focused on his face. In the background, to the left, there is a smaller, darker image of a person in a suit, possibly in a different location, suggesting a video conference. The overall tone is professional and collaborative.

hold a meeting

Our video-conferencing service brings people together, whether they're around the province or across the continent. From desktop to classroom to boardroom. We put you in the picture.



get directions

BC TEL Mobility is the
cellular leader in the
province — the largest
service area, the most
customers, the latest
wireless products and
services. Our customers
know which way to go.

learn something





BC TEL Discovery
Learning links schools,
colleges and universities
throughout the province
to the best online
learning resources
in the world. Without
leaving the classroom.

The wired classroom takes learning beyond the ABCs.



get assistance

They're the voice on the line.
Connecting callers across town or around
the world. Our operators are part of the
customer experience only BC TEL can
offer – 24 hours a day, every day.

we're at the
centre of a
communication
whirlwind

this is our world

providing
solutions that
connect british
columbians
to each other
and to the rest
of the world

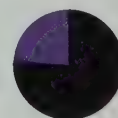
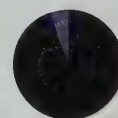
Tele-medicine bridges the distance between doctors and patients. Using our real-time video-conferencing technology, doctors can assess a patient's condition or simultaneously consult with colleagues in distant locations. Making house calls just got easier.

FINANCIAL HIGHLIGHTS

	1996	1995	Change
Consolidated Highlights			
Operating revenues (Millions)	\$ 2,517.2	\$ 2,324.6	8.3%
Earnings from continuing operations (Millions)	\$ 251.2	\$ 218.2	15.1%
Net earnings (Millions)	\$ 237.9	\$ 243.8	(2.4%)
Return on common equity - continuing operations	11.8%	10.9%	8.3%
Return on common equity	11.2%	12.2%	(8.2%)
Earnings per share - continuing operations	\$ 2.01	\$ 1.78	12.9%
Earnings per share	\$ 1.90	\$ 2.00	(5.0%)
Dividends per share	\$ 1.31	\$ 1.27	3.2%
Cash flow per share - continuing operations	\$ 6.18	\$ 5.59	10.6%
Customer access lines in service	2,423,308	2,334,809	3.8%
Long distance switched conversation minutes (Millions)	2,586	2,627	(1.6%)
Cellular Operations Highlights			
Customers	300,507	218,806	37.3%
Penetration rate	9.0%	6.8%	32.4%
Estimated market share	60%	60%	—
Average monthly revenue per customer	\$ 80	\$ 88	(9.1%)
Cash flow margin	50%	51%	(2.0%)
Net earnings (Millions)	\$ 45.0	\$ 34.8	29.3%

Source of Earnings - Continuing Operations

■ Since 1986, an increasing proportion of our earnings has come from our non-regulated businesses - wireless, interactive, advanced network and computer services.



BC TELECOM is Canada's second largest telecommunications company.

We offer a world of communications possibilities to British Columbians through BC TEL – the province's largest provider of local and long-distance services – and through a group of businesses focused on related telecommunications services, including wireless and interactive. These businesses include BC TEL Mobility Cellular, BC TEL Mobility Paging, BC TEL Advanced Communications, BC TEL Interactive, BC TEL Systems Support, ISM-BC and Telecom Leasing Canada.

The shares of BC TELECOM Inc. are listed on the Toronto, Montreal and Vancouver stock exchanges. Our share symbol is BCT.

Shareholders are invited to attend our multi-site Annual General Meeting, Tuesday, April 22, 1997.

Our two-way video-conferencing technology will allow full shareholder participation at the following locations:

- Robson Square Conference Centre, 800 Robson Street, Vancouver, B.C.;
- Metro Toronto Convention Centre, 255 Front Street West, Toronto, Ontario;

The Annual General Meeting will begin at 10:00 a.m. Pacific time, 1:00 p.m. Eastern time.

this is our world

Telecommunications is an indispensable part of our everyday lives. At home, work, school and all points in between. We live in a world of communications possibilities. The ability to respond to opportunity and challenge has helped define BC TELECOM's success.

We've built one of the most modern networks anywhere; formed alliances with other service providers who complement our strengths; and established ourselves as a market leader in an industry that has evolved into several intensely competitive arenas.

This is definitely an exciting and rewarding time to work for or hold shares in BC TELECOM.

And 1997 began on the right foot. In January, we signed a three-year contract with the Telecommunications Workers Union, which represents our 9,500 unionized employees. This agreement allows us greater flexibility in meeting the service needs of our customers.

Successes in 1996

Looking back to 1996, we have a lot to celebrate. We began the year by challenging ourselves to get our core telephone operations back on track after a disappointing year in 1995. At the same time, we committed to continuing the outstanding performance of our cellular, paging and emerging businesses. Not only did we meet our targets, we surpassed them.

We also had successes in the marketplace, reflecting strategic steps we initiated to both anticipate and meet the changing needs of our customers.

I'm proud to say these successes were

shared by both our shareholders and our employees. Shareholders benefited from a 25 per cent return on their investment. Employees who participate in our management performance incentive program benefited through the payouts they received. These successes are also reflected in the new contract with our unionized employees.

A key measure of our success can be found in our continuing operations. Earnings from BC TEL – our regulated telephone company – were \$1.63 per share, a 17 per cent increase over 1995. BC TEL Mobility's performance was equally impressive, with year-over-year earnings growth of 25 per cent. During the same period, BC TELECOM's cash flow per share increased 10.6 per cent.

Breaking new ground

We received good news last August when the federal government said it would modify Canadian ownership requirements under the broadcasting law to allow us to apply for a broadcast distribution licence. Legislation to implement this modification is currently being developed.

The government's decision was largely a response to the ground swell of support we received from all corners of British Columbia – from our employees, the Telecommunications Workers Union, consumer groups, cultural organizations, businesses and politicians.

We appreciate the support.

Once legislation is in place, it's important to note, our objective is not to be in the cable-TV business as it exists today. Our goal is to offer a full range of interactive services, including interactive cable TV.

Many of these services – for example home banking, home shopping and Internet access – already exist. Others, like video-on-demand, will be shaped by the consumer marketplace.

Rules of the road

Nor will competition in broadcast services happen overnight. Before we even apply for a broadcast distribution licence, the Canadian Radio-television and Telecommunications Commission (CRTC) – the regulatory body that oversees Canada's telecommunications and broadcast industries – must define the rules of the road on the information highway.

The process is under way. The CRTC held public hearings last fall on local-service competition and on the rules and regulations for a competitive broadcast distribution industry. Decisions are expected this spring.

In the meantime, we're taking steps to prepare for competition in broadcast-based services. One step is

to identify and test-drive technologies that will allow BC TELECOM to deliver new interactive multimedia services.

In addition, we're in the process of establishing the BC TELECOM Foundation, which will administer a \$10-million fund to encourage the production of Canadian-content programming for both traditional broadcast and new multimedia formats. The foundation will be managed by British Columbians for projects in British Columbia.

Defining our success

Our success reflects the dedication and commitment of our more than 12,000 employees. And their contribution extends well beyond the workplace. For example, they donated close to \$1 million last year through the BC TEL Employees' Community Fund – with all donations going directly to hundreds of worthy causes throughout the province. Also active are the BC TEL Pioneers, current and former employees who generously volunteer their time and efforts in communities across B.C.

As a company, we contribute more than

\$1 million annually to education, health and cultural organizations throughout the province. And, for the third year in a row, we received a national award from the United Way of Canada for our contributions to United Way agencies in B.C.

As part of our commitment to our communities, we recently established a Healthcare Initiatives Fund to promote and facilitate tele-

medicine – which allows remote consultation and diagnosis – using our high-speed video-conferencing technology.

We're also major sponsors at such events as the BC TEL Pacific Open professional golf tournament, the 1997

B.C. Summer Games and the 1997 North American Indigenous Games.

And in November, we'll be both a sponsor and official telecommunications provider when Vancouver hosts the Asia Pacific Economic Cooperation (APEC) Leaders Forum. Leaders and senior government officials from

around the Pacific Rim will attend this high-profile forum, which is being held in Canada for the first time. It's an excellent opportunity to position BC TELECOM products and services on the global stage.



*Canada's Year of
Asia Pacific will
culminate in November
when Vancouver hosts the
APEC Leaders Forum.
And we'll be there,
as sponsor and official
telecommunications
provider.*

Transitions

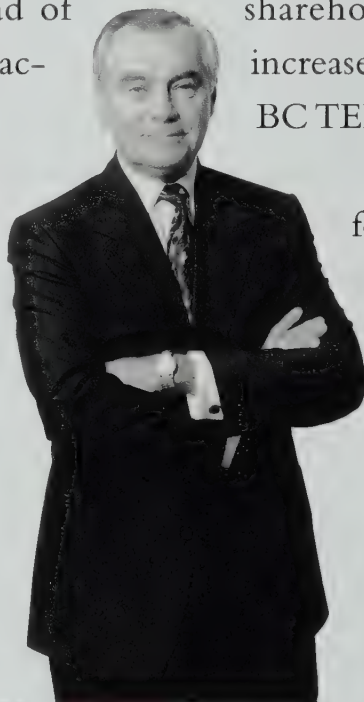
Last year saw the departure of two long-standing voices from our ranks –

one from our board of directors and one from our executive team. Victor MacLean joined our board in 1967, and Harold Ens began his career with BC TEL in 1958. I want to thank Victor and Harold for their commitment to the company. Both played important roles in our transition to competition.

Joining our board was David Emerson, President and Chief Executive Officer of the

Vancouver International Airport Authority. David brings a wealth of experience from both the public and private sectors, including demonstrated success in international marketing. And joining our executive team as Treasurer was Nadir Mohamed, previously the head of our BC TEL Interactive division.

For me, 1997 marks a year of personal transition as I will be stepping down as Chief Executive Officer, a position I have held since 1990. A process is well under way



to select a successor. I will remain as CEO until a successful candidate has been named and, beyond that, I will continue as Chairman of our Board of Directors.

I've had the pleasure of working for this company for the past 41 years. I'm proud of the ground we've covered and of our achievements in increasingly competitive arenas. I'm also proud of the confidence you as shareholders have had in our ability to increase the value of your investment in BC TELECOM.

I wouldn't have missed all of this for the world.

Brian A. Canfield
Chairman and Chief Executive Officer
March 3, 1997

telecommunications
has become
an indispensable
part of our
everyday lives.

setting the pace

In this world of communications possibilities, we should give credit where it's due – to our customers.

They're the ones setting the pace, demanding choices, reliability, convenience, and easy-to-use services. In sum, demanding, and getting, greater value for their consumer dollars.

That's the business we're in today. And we're pretty good at it.

We're setting the pace on the information highway, expanding capacity and providing access speeds that meet our customers' needs. Last year, we teamed up with BCnet to give the province's three largest universities the biggest data pipe in Canada, with speeds of 155 megabits a second. This has given us the opportunity to develop high-speed network tools with some of the most demanding users in the world.

Picking up speed

By the end of 1997, we will use this experience to offer commercial data services at a lightning fast 155 megabits a second to businesses in major centres throughout B.C. At the same time, we will more than quadruple the connection speed to

the Internet's global backbone from 45 megabits a second to 200 megabits a second – the fastest in Canada.

We're wiring the province's classrooms with access speeds tailored to each school's needs. And our BC TEL Discovery Learning group goes one step further, helping schools deliver education via the Internet, video-conferencing and distance learning applications.

We announced two initiatives last year to bring high-speed Internet access to residential customers, home offices and small businesses. ISDN@Home allows Internet access at 128 kilobits per second – almost five times faster than conventional 28.8 kilobit-per-second modems.

ISDN@Home is available now in larger urban centres and will be accessible to 95 per cent of British Columbians by the end of 1998.

We also conducted field trials of ADSL, which stands

for asymmetric digital subscriber line. ADSL is a new technology that can carry data, graphics and video images over existing copper telephone wires at very high speeds – 50 times faster than conventional modems and three times faster than cable modems. ADSL service should be available to 85 per cent of British Columbians by the end of 1997.

Sympatico™ became the top Internet service provider in the province last year, just seven months after its launch. We packaged Sympatico with our Real Plus™ long-distance savings plan to give customers the best of both worlds – long-distance savings and an easy-to-use Internet service. Voted the best new consumer online product at the 1996 Canadian Online Products Awards, Sympatico is now available to 80 per cent of British Columbians.

Sympatico is more than an Internet service. It's an example of how we can package and deliver personalized online services that customers want – such as health information, educational resources and home shopping.

This spring, Vancouver City Savings Credit Union will open Canada's first branchless bank, using a software platform we helped develop. The bank will offer a full range of home banking services that can be accessed by telephone,

personal computer or interactive TV. A video-conferencing feature will be added later to allow 'face-to-face' meetings between customers and bank employees.

Wireless solutions

We also provide customers with wireless solutions. With more than 300,000 cellular and 100,000 paging customers, we're leaders in both markets.

And we're first to market in B.C. with the next generation of wireless service – digital personal communications services (PCS). Digital PCS provides improved call clarity and greater security. It also allows us to offer customers a number of enhanced



Our new digital PCS service launches the next wave of wireless communication in B.C. Customers can expect new calling features, greater clarity and security, and longer battery life.

features, starting with calling-line identification and a visual indicator that lets the user know when new voice-mail messages are received.

We're also planning several enhanced paging features – such as text messaging and the ability to be paged when important e-mail messages arrive when you're not at your computer.

Leading the way

Winning customer loyalty is a key strategy. Our Advantage Performance™ program, for example, gives small business and home office customers on our long-distance plans preferred pricing from partner companies that provide insurance, courier and other services.

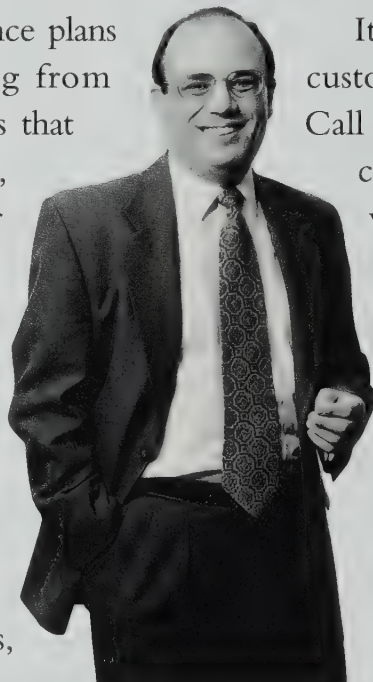
We also target our long-distance markets with special discounts and customized features. And within our current regulatory constraints,

we've been able to package some products and services to add value for our customers. These steps have helped us retain approximately 75 per cent of the long-distance market in B.C.

Now we await competition in the local-service market, likely early next year. And we know what we need to do. We will continue to focus on making it easier for customers to do business with us. This means providing more flexible service hours, quicker response times and self-serve options – using the Internet and interactive voice response – to deliver services more quickly and efficiently.

It also means offering features that our customers want. Two recent examples are Call Display Plus,™ which displays both a caller's name and phone number, and voice-activated dialing.

It's all part of giving customers what they want, and being a market leader.



Fares F. Salloum

Fares F. Salloum
Executive Vice-President,
Communication Services
March 3, 1997

we make
it easy
to do
business
with us by
providing
convenience,
choice and
customized
solutions.

investing in our network

We take our commitment to customers seriously.

Every year, we invest hundreds of millions of dollars as part of our capital expenditure program to expand and upgrade our extensive telecommunications network. We invested \$590 million in 1996 and we'll invest more than \$600 million this year – much of it targeted to upgrade service in smaller communities.

More than 97 per cent of our customers are now served by digital switching, which provides them with access to our enhanced calling features. But we're not stopping there. We're committed to improving service for the small percentage of British Columbians still served by older equipment. We have an aggressive plan in place

to complete this upgrade by the end of 1999.

At the same time, we're building advanced intelligent network capabilities by linking our digital switches to a common database that houses the latest services software. As a result, call processing intelligence can be accessed centrally, instead of adding it to individual switches. This allows us to introduce new features and customized services faster and cheaper.

Last fall, we launched B.C.'s second area code. We recognized that the growing demand for numbers – for telephone, cellular, paging, fax and Internet access – would soon tax the capabilities of the 604 area code. The new 250 area code applies everywhere outside the Lower Mainland-Whistler-Sunshine Coast region.

Network reliability

Another aspect of our commitment to customer service is ensuring the reliability of our network. Last year, we opened a new network operations back-up centre in Abbotsford, in the Fraser Valley east of Vancouver. In an emergency, the back-up system can assume network control from our main centre in Burnaby – a critical role, given the region's vulnerability to earthquakes. We also work closely with government and emergency services on effective response plans should disaster disrupt our network.

Our goal to be the high-quality, low-cost provider of network facilities in B.C. is paying dividends. We are the largest provider of network capacity for alternative long-distance carriers and resellers in the province. These companies choose our network instead of building their own – in the process, they provide us a return on our investment.

We're the first telecommunications company in Canada to receive ISO 9001 certification for network planning and standards. This international benchmark is used to assess a company's ability to consistently deliver quality products and services.

Our reputation is spreading. International companies such as British Telecom now benchmark against our network provisioning group. And early last

year, we were asked to send construction and field services crews to Oregon and Washington to help US WEST repair storm damage to its network. The expertise of our crews soon prompted calls from other U.S. telephone companies seeking similar help. However, we turned down these requests so that we could continue to concentrate on meeting customer service demands at home.

Driving toward the future

The rapid growth of the Internet was a headline story in 1996. And what a story it was, with global Internet traffic doubling every four to six months.

We're certainly doing our part to make it easy for customers to drive the information highway with a network that delivers the access speeds they want. We're expanding and enhancing our network, adding the capacity and features that allow us to deliver high-speed interactive services.

For example, as part of B.C.'s Electronic Highway Accord, the provincial government awarded us the contract last year to build the backbone network facilities for moving government information electronically around B.C. We will connect government offices in eight regional centres – Vancouver, Victoria,



Customers can now purchase the latest communications equipment – like the Vista 350 – by monthly installments on their phone bills. It's called FLEXPAY, and it spells customer convenience.

Nanaimo, Kamloops, Kelowna, Nelson, Prince George and Terrace.

This new network replaces a patchwork of technologies that have been operating at full capacity for some time. It will provide a bigger and faster pipeline, one that is better suited to government ministries that serve the resource, health and social services sectors.

Much of this high-speed pipeline will be fibre optic. We're also conducting trials with ADSL – asymmetric digital subscriber line. I'm excited by the potential demonstrated in these trials.

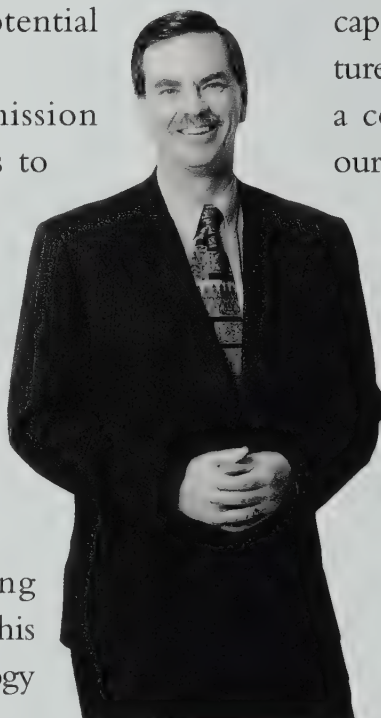
The high-speed transmission afforded by ADSL allows us to capitalize on and expand the capabilities of our existing copper infrastructure. This technology will also play an important role as we enter new markets for information in video and multimedia formats.

But we're not stopping there. We're planning trials this year of an even faster technology

that can deliver video-on-demand over this same copper infrastructure.

That's one more example of how Network Services is helping our lines of business compete at the retail level. And with local-service competition less than a year away, we want to ensure that our telecommunications network has the capability – and the cost structure – to offer BC TELECOM a competitive advantage in all our retail markets.

We know where we're headed, and we know how to get there.



Don Calder

Don A. Calder
Executive Vice-President,
Network Services
March 3, 1997

our
network
gives
us the
ability
to deliver
services
our
customers
want.

increasing shareholder value

We have come a long way in the past 10 years.

A decade ago, we were a reliable income stock operating primarily in a monopoly setting. Now we operate in a very competitive marketplace and show signs of behaving like a growth stock, reflecting our demonstrated potential for above-average growth.

Last year alone, shareholders realized a 25 per cent return on their investment, reflecting our dividend and the capital appreciation of our shares.

However, the way we generate shareholder value has changed. Today, 25 per cent of our net earnings come from businesses that, for the most part, we weren't in 10 years ago. For example, BC TEL Mobility now accounts for 20 per cent of our net earnings. Another five per cent comes from relatively new businesses – the Internet, computer services and high-speed advanced network services.

These new ventures remind me of our cellular business 10 years ago. Cellular competition had just begun and our success in this new

market was not guaranteed. But we secured an early market lead, made the right investments, and have never looked back.

Taking the right steps

Increasing shareholder value today means directing capital toward investments with the most promising financial returns. It also means managing costs and growing new revenue. We're taking all of these steps.

As we move beyond the monopoly era of regulated rates of return, we're focusing on different indicators to measure our financial performance and shareholder value.

Cash flow and Economic Value Add (EVA) are two such indicators. EVA, which measures operating earnings against the assets employed to produce those earnings, links earnings more directly to the

intrinsic market value of a company's stock. Cash flow per share indicates a company's ability to pay dividends and finance growth.

A key to our 1996 results is the performance of our continuing operations, which posted a 15.1 per cent increase in earnings. BC TEL's contribution to earnings increased 24 cents to \$1.63 per share. BC TEL Mobility increased eight cents to 40 cents per share.

Leading the way was strong revenue growth from several businesses – wireless,

Internet, computer services and enhanced calling features – plus continuing growth in customer lines and an increase in monthly local-service rates. As a result, operating revenues increased 8.3 per cent to \$2,517.2 million.

Looking ahead, we have negotiated a new revenue settlement plan with the other members of the Stentor alliance. Under the plan, long-distance revenues generated in British Columbia will stay here. Over time, we expect this to have a positive impact on our bottom line.

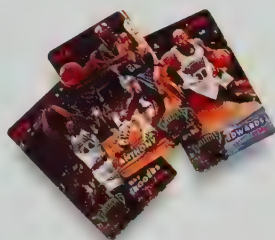
Rebalancing our rates

We're also seeing the beginning of rate rebalancing on the local-service side of our business.

Although most of our basic services are still priced well below their actual cost, that imbalance is changing gradually. The CRTC has committed to a rate rebalancing program that will see basic-service rates increase over a three-year span. To date, these rates increased \$2 a month in 1996 and again in 1997. A third increase – scheduled for next January – has yet

to be determined.

Rate rebalancing is a prelude to the adoption of price-cap regulation, which will be used to determine the prices of BC TEL's utility products and services – for example, basic service charges for residential and business customers. Under price caps, the overall prices of various categories of utility goods will be capped,



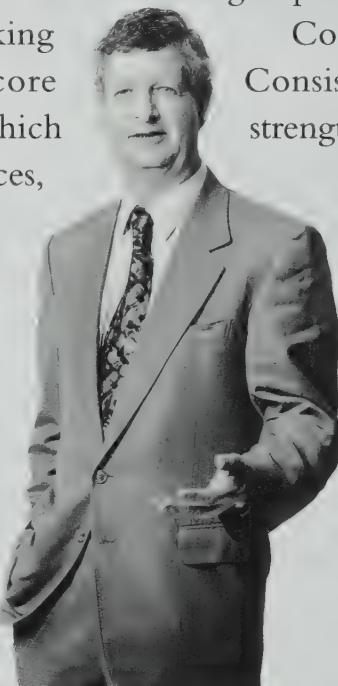
Functional and collectible. Our prepaid Phone Cards make it easy to place long-distance calls. Or listen to your favourite Grizzly.

allowing us flexibility in changing prices for individual services as long as the total price of each category does not exceed the cap.

Closing the cost gap

That's why it's so important for us to close the gap between the prices we charge for basic service and what it costs us to provide it. And that's why we're working hard to reduce our core operating expenses, which include operator services, customer service, network operations and plant operations.

Since 1994, we've reduced these core expenses significantly – by \$100 million. And we expect this downward trend to continue in 1997.



At the same time, increasing competition is creating new challenges requiring the reinvestment of these savings in sales, advertising, tele-marketing and information systems. This will ensure we're positioned to take advantage of opportunities that stem from deregulation.

We anticipate a healthy annual growth rate for our enhanced services. Already, 30 per cent of our customer base has at least one enhanced service. We also expect increased demand for second residential access lines as more people sign up for Internet service.

Competition hasn't slowed us down. Consistency is just another one of our strengths.

C. Ken Crump
Executive Vice-President, Corporate Services
and Chief Financial Officer
March 3, 1997

the
objective
is to
add
value
for both
customers
and
shareholders.
that's what
we do.

Brian A. Canfield
Chairman and Chief
Executive Officer
Member since 1989



G. N. (Mel) Cooper
CM, OBC
President, Seacoast
Communications
Group Inc.
Victoria, B.C.
Member since 1988



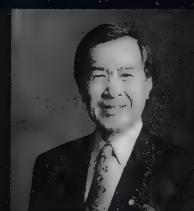
David L. Emerson
President and Chief
Executive Officer
Vancouver International
Airport Authority
Richmond, B.C.
Member since 1996



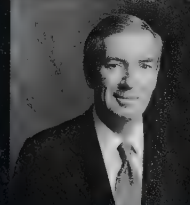
M. Rendina K.
Hamilton QC, OBC
Corporate Director
Kelowna, B.C.
Member since 1980



Robert H. Lee OBC
President, Prospero
Group of Companies
Vancouver, B.C.
Member since 1993



**Gordon F.
MacFarlane OBC**
Corporate Director
Burnaby, B.C.
Member since 1977



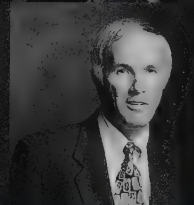
Michael T. Masin
Vice-Chairman
and President –
International
GTE Corporation
Stamford, Connecticut
Member since 1995



John W. Pitts
Corporate Director
Vancouver, B.C.
Member since 1975



Barbara J. Rae
CM, OBC
Corporate Director
West Vancouver, B.C.
Member since 1985



Thomas W. White
President
GTE Telephone
Operations Group
Irving, Texas
Member since 1995



W. Robert Wyman
Corporate Director
West Vancouver, B.C.
Member since 1986

BOARD OF DIRECTORS

The responsibility for managing the business and affairs of BC TELECOM rests with the 11 people who comprise our Board of Directors. The Board delegates to the Chief Executive Officer and his executive management team certain Board authorities – particularly those related to setting our strategic direction, objectives and plans.

The Board reviews and approves these strategies and plans, and ensures that management implements them in a manner that complies with corporate policies and procedures and with the law. The Board also ensures that results are fairly and accurately reported to shareholders and other stakeholders.

Our Board members recognize the importance of understanding the corporation, its markets and current operating environment. In 1996, the Board met 12 times – eight full-day and four half-day meetings. Several of these meetings were designed as orientation for our new Board member as well as an opportunity for the executive team to apprise the full Board of developments in the industry. Two days of these meetings focused on the strategic planning process.

The Board also delegates certain of its duties and responsibilities to committees composed entirely of outside directors. Each committee is governed by terms of reference approved by the Board and provides a report of its activities to the Board on a regular basis. The following describes the committees and their responsibilities.

BC TELECOM BOARD GOVERNANCE COMMITTEE

This committee provides a focus on governance practices – the process and structure used by the Board to supervise the business and affairs of BC TELECOM, with the objective of enhancing shareholder value. The committee conducted an in-depth review of corporate governance at BC TELECOM. Its report was adopted in mid-1995 as the first edition of the BC TELECOM Board Policy Manual.

This Manual is used to ensure that the Board undertakes its responsibilities in the most effective manner possible. Given the dynamic nature of our business, Board policies are reviewed on an ongoing basis. The Board Policy Manual is reviewed annually and modified as necessary. The second edition of the Manual was approved by the Board on the recommendation of the Board Governance Committee in January 1997.

Further information on policies contained in the Manual is included in the 1997 Proxy Information Circular.

MEMBERS: G. N. (Mel) Cooper, John W. Pitts (Chair), Barbara J. Rae, W. Robert Wyman

BC TEL PENSION TRUST COMMITTEE

This committee assists BC TEL in administering the company pension plan for management and exempt employees and the related trust fund. The committee reports to the Board on the actuarial soundness of the trust fund, the administrative aspects of the plan investment policy, the performance of the investment portfolios and compliance with government legislation.

MEMBERS: G. N. (Mel) Cooper, M. Rendina K. Hamilton (Chair), Robert H. Lee, Gordon F. MacFarlane

BC TELECOM AUDIT COMMITTEE

This committee reviews audit and control functions for both BC TELECOM and BC TEL. This entails reviewing all financial information provided to shareholders and others, the corporate control systems established by management and the Board, and the audit process. The committee's review of our consolidated and financial statements includes the Management's Discussion and Analysis, which begins on page 25.

MEMBERS: David L. Emerson, M. Rendina K. Hamilton, Robert H. Lee, Barbara J. Rae (Chair)

BC TELECOM HUMAN RESOURCES & COMPENSATION COMMITTEE

This committee develops and recommends for Board approval the executive compensation program and the compensation paid to the Chairman and Chief Executive Officer and other executive officers of BC TELECOM and its subsidiaries. The committee chair, in consultation with each director, reviews the CEO's performance and in consultation with the Board Governance Committee, reviews the CEO's performance as Chairman. This committee also regularly reviews the organizational structures and establishes a succession plan for BC TELECOM executives and other key managers.

MEMBERS: Gordon F. MacFarlane, Michael T. Masin, John W. Pitts, Thomas W. White, W. Robert Wyman (Chair)

The following Management's Discussion and Analysis (MD&A) offers a detailed examination of our 1996 operating and financial results. It also looks at the year ahead, the regulatory processes that are either under way or planned, and our expectations in terms of revenues and expenses.

The MD&A should be read in conjunction with the audited consolidated financial statements.

EARNINGS OVERVIEW

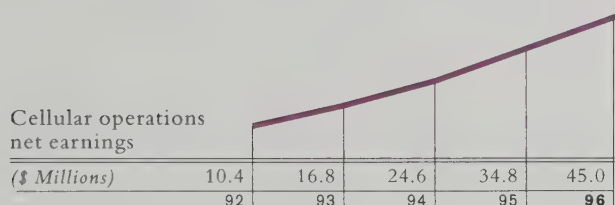
The contribution from continuing operations to BC TELECOM's 1996 common share earnings increased 15.4% to \$247.7 million from \$214.7 million in 1995. On a per share basis, earnings from continuing operations increased to \$2.01 from \$1.78 the previous year.

BC TELECOM's common share earnings for 1996 were \$234.4 million or \$1.90 per share compared to \$240.3 million or \$2.00 per share in 1995. These results include the loss in 1996 of \$13.3 million or \$.11 per share from discontinued operations – principally the disposition of assets of MPR Teltech, a wholly-owned subsidiary of BC TELECOM. Common share earnings in 1995 included a gain of \$25.6 million or \$.22 per share resulting primarily from the sale of our interest in PMC-Sierra, Inc., a high-tech semi-conductor company.

The following tables indicate the contribution to common share earnings from BC TELECOM's major businesses.

Contribution to Common Share Earnings

(\$ Millions)	1996	1995	Increase (Decrease)	% Change
BC TEL	200.6	160.5 ¹	40.1	25.0
Non-Regulated Businesses				
- Cellular Operations	45.0	34.8	10.2	29.3
- Other Operations	14.3	23.0	(8.7)	(37.8)
Corporate	(12.2)	(3.6) ¹	(8.6)	—
Continuing Operations	247.7	214.7	33.0	15.4
Discontinued Operations	(13.3)	25.6	(38.9)	—
	<u>234.4</u>	<u>240.3</u>	<u>(5.9)</u>	<u>(2.5)</u>

**Contribution to Earnings Per Share**

(\$)	1996	1995	Increase (Decrease)	% Change
BC TEL	1.63	1.33 ¹	.30	22.6
Non-Regulated Businesses				
- Cellular Operations	.36	.29	.07	24.1
- Other Operations	.12	.19	(.07)	(36.8)
Corporate	(.10)	(.03) ¹	(.07)	—
Continuing Operations	2.01	1.78	.23	12.9
Discontinued Operations	(.11)	.22	(.33)	—
	<u>1.90</u>	<u>2.00</u>	<u>(.10)</u>	<u>(5.0)</u>

¹ In 1994, a provision of \$14 million (earnings impact of \$7.8 million or \$.06 per share) was made for corporate restructuring costs. During 1995, this amount was charged to BC TEL and credited to BC TELECOM Corporate as the restructuring costs were incurred.

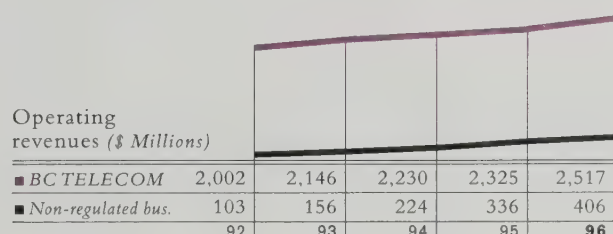
The following sections discuss our consolidated operating results and financial position, with reference to specific subsidiaries or businesses where appropriate. The information pertains to our continuing operations; the accompanying financial statements and notes include detailed information on discontinued operations.

RESULTS OF OPERATIONS**Operating Revenues**

Operating revenues increased 8.3% or \$192.6 million to \$2,517.2 million in 1996 from \$2,324.6 million in 1995. Primarily, this increase reflects higher local-service revenues as a result of growth in the number of BC TEL and BC TEL Mobility customers and an increase in monthly service rates for basic telephone service.

(\$ Millions)	1996	1995	Increase	% Change
Local service	1,217.5	1,033.4	184.1	17.8

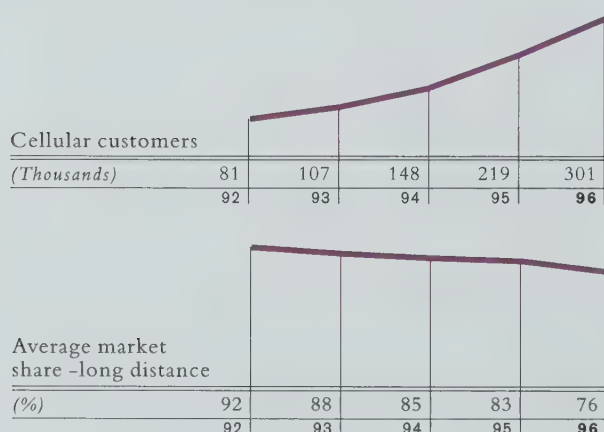
The provision of local exchange services to business and residential customers accounted for \$98 million of the total increase in local-service



revenues. A \$2 per month increase in basic business and residential service rates that became effective January 1, 1996 accounted for approximately half of this increase. Another factor was a 3.8% increase in customer access lines – up from 3.1% in 1995. While the increase in the number of residential lines remained at the 45,000 level, business line growth increased to 42,000 lines in 1996 compared to 24,000 in 1995. This growth reflects both increased demand for Internet access and the continuing growth in B.C.'s tourism industry.

Strong growth in BC TEL Mobility Cellular's business in 1996 resulted in a \$42-million increase in local cellular revenues. Our cellular subscriber base increased 37% to just over 300,000 at year end, while average monthly revenue per customer declined 9% to \$80 from \$88 in 1995.

Also contributing to higher local-service revenues was a \$14-million increase in revenues from our SmartTouch™ portfolio of enhanced services, reflecting higher market penetration rates for all services and a large increase in pay-per-use services. Year-end market penetration rates were about 25% for Call Waiting, just under 15% for Call Display and over 10% for Call Answer. A \$10-million increase in revenues from competitors for interconnection with BC TEL's network plus smaller increases in directory assistance charges, private line services and non-recurring charges accounted for the remainder of the increase in local-service revenues.



(\$ Millions)	1996	1995	Decrease	% Change
Long-distance service	805.8	821.4	(15.6)	(1.9)

Revenues from message toll and other long distance services declined 6.9% or \$58 million in 1996. Although calling volumes declined only slightly, per-call revenue declined more than 5% as long-distance prices continued to fall. On a revenue basis, BC TEL's average market share declined seven percentage points last year to 76%, with the most significant loss in the residential market. The rate of market share loss slowed in the latter part of 1996, in part due to the introduction of the Real Plus Extra™ savings plan and by packaging our long-distance service with free or discounted Sympatico™ Internet service.

Partially offsetting this decline, BC TEL's net share of long-distance revenues pooled with other Canadian telephone companies was \$37 million more in 1996 than 1995. This increase was primarily the result of a larger revenue pool available to be shared by the Canadian telephone companies. In addition, BC TEL Mobility Cellular accounted for a \$6-million increase in long-distance revenues.

(\$ Millions)	1996	1995	Increase	% Change
Other	493.9	469.8	24.1	5.1

Higher revenues from BC TELECOM's non-regulated businesses accounted for \$23 million of the increase in this category. Not included here is the significant increase in cellular revenues – which is reflected in the local and long-distance service revenue categories. ISM-BC reported higher external and project-related revenues, BC TEL Advanced Communications recorded higher revenues from Ubiquity broadband services, and BC TEL Interactive reported an increase in revenues from the introduction of Sympatico Internet service and from BC TEL Discovery Learning services.

BC TEL reported a small overall increase in other revenues. Directory advertising revenues increased \$4 million, primarily due to higher advertising rates. Uncollectible revenues, which are netted in this category, decreased \$7 million due to an improvement in bad debt recoveries. Partially offsetting these changes was a decrease in terminal rental revenues of \$7 million, as that market continues to decline.

Operating Expenses

Operating expenses increased 7.1% or \$125.4 million to \$1,896.5 million in 1996 from \$1,771.1 million in 1995. About 85% of this increase is attributable to BC TELECOM's non-regulated businesses and to higher depreciation expense, while only 15% is attributable to the ongoing operations of BC TEL.

(\$ Millions)	1996	1995	Increase	% Change
Operations	1,398.8	1,318.7	80.1	6.1

Reflecting significantly higher revenues from non-regulated businesses, related operations expenses increased \$45 million in 1996. BC TEL Mobility Cellular accounted for more than half of this increase. It faced higher costs of supporting a significantly larger customer base and higher acquisition costs as a result of B.C.'s intensely competitive cellular market. ISM-BC, BC TEL Interactive and BC TEL Advanced Communications contributed most of the remaining increase in operations expenses for our non-regulated businesses.

BC TEL controllable operating cost per access line				
(\$)	490	486	464	448
	92	93	94	95
				96

BC TEL employees per 1,000 access lines				
	6.1	5.3	5.1	4.9
	92	93	94	95
				96

Reflecting a continuing emphasis on cost restraint, BC TEL's operations expense increased just 1.8% or \$21 million in 1996. The major contributing factors were:

- higher workforce transformation amortization costs;
- higher selling and related expenses as a result of a more competitive marketplace – particularly in long-distance;
- an increase in management incentive compensation based on operational and financial results achieved in 1996;
- smaller increases in billing and collection costs, directory-related costs and property taxes.

Partially offsetting these increases were lower core operations expenses for repair and maintenance, operator service, order processing and other plant operations. These savings stemmed primarily from our voluntary retirement and separation programs that reduced the number of BC TEL employees by 1,450 during 1996.

On a corporate level, operations expense was \$14 million higher in 1996, since 1995 included a credit amount for earlier restructuring costs.

(\$ Millions)	1996	1995	Increase	% Change
Depreciation and amortization	497.7	452.4	45.3	10.0

The increase in depreciation and amortization expense was due primarily to the growth of BC TELECOM's asset base, as discussed in the *Liquidity and Capital Resources* section that follows. BC TEL accounted for \$31 million of the increase; our non-regulated businesses the remaining \$14 million. BC TELECOM's composite depreciation rate increased slightly to 7.4% from 7.2% in 1995.

Traditional core operations expenses				
(\$ Millions)	741	692	646	
	94	95	96	

Other Income

(\$ Millions)	1996	1995	Decrease	% Change
Other income	10.4	11.3	(.9)	(8.0)

The small decrease in other income reflects a number of offsetting factors. BC TELECOM recorded a \$7-million loss in 1996 on its investment in MediaLinx, relating to start-up and development costs for interactive multimedia applications. At the same time, BC TELECOM recorded a \$6-million increase in interest income in 1996 due to higher investment balances and interest on tax reassessments.

Financing Costs, Net

(\$ Millions)	1996	1995	Decrease	% Change
Financing costs, net	139.3	143.0	(3.7)	(2.6)

Interest expense declined \$7 million in 1996 due to lower prevailing rates of interest and actions taken to minimize interest costs. These actions included redeeming the 9 7/8% Series AF First Mortgage Bonds in 1996. Partially offsetting this change was a \$3-million decline in the allowance for funds used during construction (AFUDC), which is netted in this category. The AFUDC rate declined to 8.96% in 1996 from 10.59% in 1995.

Cash flow per common share – continuing operations					
(\$)	4.58	5.33	5.24	5.59	6.18
	92	93	94	95	96

Gross capital expenditures					
(\$ Millions)	467	513	608	598	590
	92	93	94	95	96

Income Taxes

(\$ Millions)	1996	1995	Increase	% Change
Income taxes	237.2	200.4	36.8	18.4

Higher pre-tax earnings increased income taxes by \$33 million in 1996. An increase in the effective tax rate from 47.5% to 48.2% accounted for the remainder of the increase. A detailed reconciliation of the statutory income tax rate to the effective rate is included in Note 5 to the financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Cash from operations before working capital increased to \$763.5 million from \$672.4 million in 1995, primarily due to increased earnings and higher depreciation and amortization charges. After adjusting cash from operations for changes in working capital, and deducting dividends to shareholders and net capital expenditures, free cash flow was \$15.1 million in 1996 compared to \$55.5 million in 1995.

Investing Activities

Capital expenditures continue to represent the single largest use of BC TELECOM's funds. These expenditures allow us to:

- satisfy the continuing growth in service demand;
- increase the operating efficiency and productivity of both our wireline and wireless networks;
- introduce new products and services into an increasingly competitive marketplace.

Gross capital expenditures totalled \$590 million in 1996 compared to \$597.8 million in 1995. Investment to provide regulated voice and data services accounted for \$435 million of the 1996 expenditures. As part of our ongoing network modernization and expansion, 14 local switches were converted to digital technology and 13 exchanges were upgraded to individual line service. In addition, last year saw a major deployment of Integrated Services Digital Network (ISDN) offerings to meet growing demand for high-speed digital services.

BC TELECOM's non-regulated businesses accounted for \$155 million in capital expenditures, of which \$86 million was invested by BC TEL Mobility Cellular. Our cellular company added 72 analog and 61 digital (CDMA) cell sites during the year. The CDMA digital deployment was completed in the Greater Vancouver area and is ready for commercial launch in early 1997.

Dividends

Dividends to common shareholders totalled \$161.7 million in 1996, representing 64% of earnings from continuing operations. For the 10th consecutive year, the Company increased its common dividend. The quarterly rate was increased by \$.01 to \$.33 per share in the second quarter.

Financing Activities

In 1996, BC TELECOM issued 2.2 million common shares for \$50.3 million, primarily through the Dividend Reinvestment and Share Purchase Plan. This plan was modified effective July 1, 1996 to permit a shift to the purchase of BC TELECOM shares on the open market.

BC TELECOM had a total of \$159.4 million in commercial paper notes outstanding at year end – a decrease of \$63.5 from the \$222.9 million outstanding at the end of 1995. These notes have been reclassified as long-term debt on the balance sheet on the basis of the availability of a \$180-million long-term credit facility agreement.

BC TEL issued an aggregate of \$150 million in structured medium term note debentures during 1996. The five issues provided all-in funding at a cost 12 to 17 basis points below the 90-day bankers' acceptance rate. During the year, BC TEL redeemed \$75.9 million of first mortgage bonds, as permitted under the terms of the trust deed.

Credit Ratings

On April 9, 1996, the Canadian Bond Rating Service (CBRS) reaffirmed the existing ratings of BC TELECOM Inc. debentures and commercial paper and the ratings of BC TEL first mortgage bonds, debentures (including medium term note debentures), preferred shares and commercial paper with a stable outlook.

On May 9, 1996, the Dominion Bond Rating Service (DBRS) confirmed the existing ratings of the same securities. DBRS assigned a stable trend to all securities except commercial paper, which was given a negative trend.

The table below provides both agencies' current ratings for all rated BC TELECOM and BC TEL securities.

	CBRS	DBRS
BC TELECOM		
Debentures	A (High)	A
Commercial Paper	A-1	R-1 (middle)
BC TEL		
First Mortgage Bonds	A+ (High)	A (high)
Debentures	A+ (Low)	A (high)
Commercial Paper	A-1 +	R-1 (middle)
Preferred Shares	P-1	Pfd-2

Dividends declared per common share					
(\$)	1.15	1.19	1.23	1.27	1.31
	92	93	94	95	96

Interest coverage – continuing operations					
(Times)	3.4	3.6	3.8	3.7	4.3
	92	93	94	95	96

REGULATORY AND LEGAL ENVIRONMENT

Convergence

The federal government issued its Convergence Policy Statement in August 1996, marking the culmination of a process that began in October 1994. During this two-year period we saw:

- the CRTC's May 1995 report on convergence;
- the Information Highway Advisory Council's own recommendations in September 1995;
- the federal government's May 1996 report – *Building the Information Society: Moving Canada into the 21st Century*.

With its Convergence Policy Statement, the federal government has set out the principles that will “allow for fair and sustainable competition between cable and telephone companies” and create conditions for “expanded consumer choice and continued support for Canadian culture.”

The government also decided to modify the Canadian ownership requirements under the broadcasting law as they apply to BC TELECOM and Québec-Tél, so as to allow subsidiaries of the two companies to apply for broadcasting distribution licences within their respective operating territories. Legislation to implement these modifications to the rules regarding Canadian ownership requirements is currently being developed.

The special treatment for these companies is contingent on abiding by certain conditions regarding the composition of the board of directors of the broadcasting subsidiary, exclusive control by that board over programming decisions, and in BC TELECOM's case, the establishment of the BC TELECOM Foundation, which will administer a \$10-million fund dedicated to the development and production of traditional broadcast and related new multimedia programming and applications for Canadian audiences.

Developments in Local Service

In March 1996, the CRTC initiated a proceeding to determine an appropriate form of price cap regulation for the utility segments of BC TEL and other Stentor companies, effective January 1, 1998. BC TEL, in conjunction with Stentor, has proposed a price cap plan which addresses the following issues:

- The creation of a price cap formula that determines prices for all price capped services (including an inflation factor, an appropriate productivity offset and reflecting any exogenous factors).
- The grouping of utility services into a number of service baskets providing pricing and marketing flexibility to allow effective competition.
- The recovery of any depreciation reserve deficiency that could arise as a result of technological change and increased competition.
- The implementation of a third-step rebalancing increase of \$3 to monthly local rates effective January 1, 1998.

A decision is expected in the first half of 1997. Following this decision, a proceeding will be initiated to establish local rate levels for January 1, 1998.

A number of proceedings have been held – or are under way – in preparation for local service competition. These proceedings involve the co-location of competitors' equipment in the telephone companies' central offices, local interconnection and network component unbundling, local number portability, resale of local services, the need for local contribution, and network operations and carrier interface procedures. The CRTC is expected to announce its decision on local competition in the second quarter of 1997.

A public hearing was held in May 1996 to review various budget local services proposed by BC TEL and other Stentor companies. BC TEL's proposal included a budget option called Pathway, which would be \$4 less per month than regular basic exchange service. Pathway would allow customers an unlimited number of incoming calls and 30 outgoing local calls per month without charge.

The CRTC issued a decision in November 1996, denying the various budget local services alternatives. In the CRTC's view, telephone service is currently affordable to the vast majority of Canadian households. Should an affordability problem with basic telephone service arise in Canada, the commission said a targeted subsidy program would be the preferred approach to address such a problem.

In February 1997, the CRTC granted approval for part of BC TEL's 1997 rate rebalancing proposal. Specifically, the CRTC approved the Company's proposal, effective January 1, 1997, to increase the monthly rate for residence lines in all rate groups and business lines in certain rate groups by \$2 and to leave at existing levels business line rates in rate groups that are already set at compensatory levels. However, the CRTC denied our proposal to exempt customers still served by step-by-step switches from the \$2 increase.

The CRTC has not yet ruled on our accompanying proposal to consolidate our 11 current rate groups to seven. The CRTC has issued Public Notice 97-2 to consider the rate group consolidation proposal. A decision is expected in the second quarter of 1997.

Forbearance on Long Distance Services

The CRTC issued Public Notice 96-26 in July 1996 to consider when and to what extent it should forbear from regulating some or all long-distance services offered by the Stentor companies. The CRTC noted that in Decision 94-19 (Regulatory Framework), it expressed general support for forbearance for long-distance services, but concluded that granting such forbearance at that time would have been premature given Stentor's very high market share in toll services and the existence of significant barriers to entry. The CRTC said that all but two of its specified pre-conditions for toll forbearance had been met. The outstanding pre-conditions are:

- (a) The matter of removing barriers to local competition, which is currently being addressed in Public Notice 95-36 and associated proceedings.
- (b) The question of the extent of rivalrous behavior in the toll services market, particularly in the basic toll market.

As a result, the CRTC said the focus of the proceeding would be on whether sufficient competition exists in the relevant markets to protect the interests of users. The proceeding is scheduled to run until April 1997, when final reply comments are due.

OUTLOOK

This outlook contains forward-looking information with respect to BC TELECOM and certain of its subsidiaries. This prospective information, by its nature, necessarily involves risks and uncertainties that could cause actual results to differ materially from those contemplated by the information presented. The dynamics of the competitive marketplace and the outcome of numerous CRTC proceedings may lead to such differences. In particular, the implementation of price caps will result in a transition from existing regulatory accounting standards and methodologies to the more universal generally accepted accounting principles (GAAP). This raises the issue of the future accounting treatment for the recovery of certain deferred charges such as work-force transformation costs which are currently being amortized over five years, and the depreciation reserve deficiency which was dealt with in the price cap proceeding.

Corporate Strategy, Revenues and Expenses

A key element of our corporate strategy is to generate new revenues from emerging businesses, principally in BC TEL Mobility, ISM-BC, BC TEL Advanced Communications and BC TEL Interactive. In addition, the federal government's decision to allow us to apply for a broadcast distribution licence opens up a number of new business opportunities. New revenue sources are expected to more than offset the loss of revenues in the competitive long-distance market and in the upcoming competitive local-service market. Over time, these new businesses are expected to contribute an increasing proportion of BC TELECOM's net earnings.

The strong growth in local-service revenues experienced in 1996 is expected to continue in 1997. Customer access line growth is expected to be about 3.5% – slightly below 1996's 3.8% growth rate. In addition to growth in demand for service, the \$2 per month increase in local-service rates for residential and some business lines effective January 1, 1997, will also increase local exchange service revenues in 1997. Continued strong revenue growth is also anticipated from BC TEL Mobility Cellular – despite new competition expected in 1997 – and from our SmartTouch services.

Long-distance service revenues are expected to continue to decline in 1997 due to the impact of competition and lower long-distance prices. Average market share is expected to decline to about 70% in 1997 compared to 76% in 1996 and 83% in 1995. A new Stentor revenue settlement plan, which governs the sharing of long-distance revenues pooled with other Canadian telephone companies, became effective January 1, 1997. Over time, it is expected that this new plan will have a positive impact on earnings.

Since 1994, BC TEL has achieved a \$100 million reduction in core operating expenses including operator services, customer service, network operations and plant operations. BC TEL expects this downward trend to continue in 1997. It is anticipated that these savings will be reinvested in strategic initiatives as the Company continues to take advantage of new business opportunities.

BC TEL and the Telecommunications Workers Union recently negotiated a new collective agreement which includes general wage increases of 2.75% effective January 1, 1997 and 3.25% effective January 1, 1998. This agreement, which expires at the end of 1998, will give us greater flexibility in meeting the service needs of our customers.

Management base salaries and variable pay are now determined under a new Total Rewards Strategy. Automatic across-the-board base pay increases have been replaced by salary adjustments to reflect changes in market forces, job growth and growth in an individual's skills and knowledge. Variable compensation payments are based on corporate financial results, lines of business objectives and individual performance.

Liquidity and Capital Resources

BC TELECOM has made substantial commitments as part of its planned capital expenditure program for 1997, and to a lesser extent for subsequent years. We estimate that gross capital expenditures will be \$630 million in 1997. This capital expenditure program will be financed primarily with cash generated from operations.

BC TEL expects to maintain its interest coverage and capital structure at levels appropriate for the business environment in which it operates. A prospectus dated October 31, 1996 provides for the issue of up to \$500 million in BC TEL medium-term note debentures over a two-year period. By the end of 1996, \$25 million had been issued. New issues of this debt will be used primarily to refinance currently outstanding issues of debt which mature or are redeemed. Redemption of BC TEL first mortgage bonds and market purchase of any outstanding securities of BC TELECOM or BC TEL will be undertaken in 1997 where warranted.

Litigation

An action that commenced in 1993 by American Telephone and Telegraph Company (AT&T) and Unitel Communications Inc. in the Federal Court of Canada against MCI Communications Corporation (MCI), Stentor and most of its member companies, including BC TEL, was settled in early 1997 on a confidential basis. The lawsuit alleged infringement or possible infringement of four patents involving communications between switching equipment and databases for the purpose of providing a variety of intelligent network services, such as 800 Services™, Calling Card Services™ and virtual private network service. Related litigation instituted previously by MCI against AT&T in the U.S. has also been settled on a confidential basis.

TO OUR SHAREHOLDERS:

Management is responsible to the Board of Directors for the preparation of the consolidated financial statements of the Company and its subsidiaries. These statements have been prepared in accordance with generally accepted accounting principles and necessarily include some amounts based on estimates and judgements. Financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

The Company maintains a system of internal control which provides management with reasonable assurance that assets are safeguarded and that reliable financial records are maintained. This system includes written policies and procedures, an organizational structure that segregates duties and a comprehensive program of periodic audits by the

internal auditors. The Company has also instituted policies and guidelines which require employees to maintain the highest ethical standards.

The independent auditors of the Company, Arthur Andersen & Co., have been appointed by the shareholders to express an opinion as to whether these consolidated financial statements present fairly the Company's consolidated financial position and operating results in accordance with generally accepted accounting principles. Their report follows.

The Board of Directors has reviewed and approved these consolidated financial statements. To assist the Board in meeting its responsibility, it has appointed an audit committee which is composed entirely of outside directors. The committee meets periodically with management, the internal auditors and the independent auditors to review internal controls, audit results and accounting principles and practices. The committee's terms of reference are available, on request, to shareholders.



Executive Vice-President - Corporate Services and Chief Financial Officer

AUDITORS' REPORT

TO THE SHAREHOLDERS OF BC TELECOM INC.

We have audited the consolidated balance sheets of BC TELECOM Inc. as at December 31, 1996 and 1995 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consoli-

dated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, the consolidated financial statements appearing on pages 35 to 46, inclusive, present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants / Vancouver, B.C. / January 22, 1997

CONSOLIDATED STATEMENT OF EARNINGS

<i>Years Ended December 31 (Millions)</i>	1996	1995
Operating Revenues		
Local service	\$ 1,217.5	\$ 1,033.4
Long distance service	805.8	821.4
Other (NOTE 2)	493.9	469.8
	<u>2,517.2</u>	<u>2,324.6</u>
Operating Expenses		
Operations	1,398.8	1,318.7
Depreciation and amortization	497.7	452.4
	<u>1,896.5</u>	<u>1,771.1</u>
Operating Earnings	620.7	553.5
Other income (NOTE 3)	10.4	11.3
Financing costs, net (NOTE 4)	139.3	143.0
Earnings Before Income Taxes and Minority Interest	491.8	421.8
Income taxes (NOTE 5)	237.2	200.4
Earnings Before Minority Interest	254.6	221.4
Minority interest	3.4	3.2
Earnings From Continuing Operations	251.2	218.2
Discontinued Operations (NOTE 18)		
Net loss from MPR Teltech Ltd.	(9.9)	(1.8)
Net (loss) gain on disposition of MPR Teltech Ltd. and PMC-Sierra, Inc.	(3.4)	27.4
Net Earnings	237.9	243.8
Preference and preferred share dividends	3.5	3.5
Common Share Earnings	<u>\$ 234.4</u>	<u>\$ 240.3</u>
Earnings Per Common Share (\$)		
Earnings from continuing operations	2.01	1.78
Common share earnings	1.90	2.00
Average Common Shares Outstanding (Thousands)	123,445	120,342

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

<i>Years Ended December 31 (Millions)</i>	1996	1995
Balance at beginning of year	\$ 884.5	\$ 797.0
Net earnings	237.9	243.8
	<u>1,122.4</u>	<u>1,040.8</u>
Less – Preference and preferred share dividends	3.5	3.5
– Common share dividends	161.7	152.8
Balance at end of year	<u>\$ 957.2</u>	<u>\$ 884.5</u>

CONSOLIDATED BALANCE SHEET

December 31 (Millions)

1996

1995

ASSETS

Current Assets

Accounts receivable (NOTE 6)	\$ 473.8	\$ 447.5
Prepaid expenses and other	55.6	43.3
Net assets of discontinued operations (NOTE 18)	9.5	22.8
	<u>538.9</u>	<u>513.6</u>

Other Assets

Leases receivable	28.3	26.9
Deferred charges (NOTE 7)	195.2	121.0
Investments (NOTE 8)	26.0	28.5
Goodwill and other	17.8	15.2
	<u>267.3</u>	<u>191.6</u>

Property, Plant and Equipment

Buildings, plant and equipment, net (NOTE 9)	3,727.8	3,644.5
Land	40.1	40.1
Property under construction	136.0	133.5
Materials and supplies	47.9	64.9
	<u>3,951.8</u>	<u>3,883.0</u>
	<u>\$ 4,758.0</u>	<u>\$ 4,588.2</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities

Bank indebtedness net of temporary investments	\$ 7.4	\$ 3.0
Short-term obligations (NOTE 11)	110.6	247.0
Accounts payable and accrued liabilities	492.2	412.4
Income taxes payable	25.3	72.3
Dividends payable	41.6	39.7
Advance billings and customer deposits	78.3	74.2
	<u>755.4</u>	<u>848.6</u>

Other

Long-term debt (NOTE 12)	1,441.5	1,308.1
Deferred income taxes	304.5	300.5
Other long-term liabilities	21.4	19.2
	<u>1,767.4</u>	<u>1,627.8</u>

Minority Interest

	<u>6.1</u>	<u>5.4</u>
Shareholders' Equity (NOTE 13)		
Common equity	2,159.4	2,036.3
Preference and preferred shares	69.7	70.1
	<u>2,229.1</u>	<u>2,106.4</u>

Commitments and Contingent Liabilities (NOTE 15)

	<u>\$ 4,758.0</u>	<u>\$ 4,588.2</u>
--	-------------------	-------------------

APPROVED BY THE DIRECTORS,



DIRECTOR



DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years Ended December 31 (Millions)

	1996	1995
Operating Activities:		
Earnings from continuing operations	\$ 251.2	\$ 218.2
Depreciation and amortization	497.7	452.4
Deferred income taxes	4.0	(1.3)
Allowance for funds used during construction	(6.6)	(10.0)
Other, net	17.2	13.1
	<u>763.5</u>	<u>672.4</u>
Decrease in non-cash working capital (NOTE 14)	.2	127.2
Cash from operations	<u>763.7</u>	<u>799.6</u>
Less – Dividends to shareholders	<u>165.2</u>	<u>156.3</u>
	<u>598.5</u>	<u>643.3</u>
Financing Activities:		
Common shares issued	50.3	79.6
Long-term debt issued	169.0	112.1
Change in short-term notes payable	(63.5)	(116.5)
Redemptions of long-term debt	(108.2)	(72.3)
Redemptions of preferred shares	(.3)	(.5)
Other	2.7	2.7
	<u>50.0</u>	<u>5.1</u>
Investing Activities:		
Capital expenditures, net	(583.4)	(587.8)
Decrease (increase) in materials and supplies capitalized	16.9	(6.0)
Salvage value of plant retired, net	7.6	(2.1)
Increase in investments and other assets	(92.7)	(80.2)
Proceeds on disposition of PMC-Sierra, Inc.	—	20.0
Increase in long-term leases receivable	(1.3)	(1.5)
	<u>(652.9)</u>	<u>(657.6)</u>
Cash Position:		
Net decrease during the year	(4.4)	(9.2)
Beginning of year	(3.0)	6.2
End of year	<u>(7.4)</u>	<u>(3.0)</u>
Represented by:		
Bank indebtedness	(13.7)	(4.4)
Temporary investments	6.3	1.4
	<u>\$ (7.4)</u>	<u>\$ (3.0)</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry. These statements conform in all material respects with International Accounting Standards.

The term “Company” is used to mean BC TELECOM Inc. and, where the context of the narrative permits or requires, its subsidiaries.

BC TELECOM Inc. operates in a single industry segment which is telecommunications services. The Company’s principal subsidiary, BC TEL, is regulated by the Canadian Radio-television and Telecommunications Commission (CRTC). In its role as regulator, the CRTC sets allowable rates of return, approves equity financing, approves tariffs for certain goods and services and periodically issues directives which affect the accounting treatment of specific items in BC TEL’s accounts.

(a) Consolidation The consolidated financial statements include the accounts of all the Company’s subsidiaries of which the principal ones are BC TEL, B.C. Mobile Ltd., BC TEL Mobility Cellular Inc., BC TEL Systems Support Inc., Telecom Leasing Canada (TLC) Limited and ISM Information Systems Management (B.C.) Corporation (75%).

(b) Temporary Investments Temporary investments are recorded at the lower of cost or market value.

(c) Goodwill Goodwill, which represents the excess of the cost of acquired business over the fair value attributed to the net identifiable assets, is amortized over 15 years.

(d) Property, Plant and Equipment (Property) Property is recorded at historical cost and, with respect to self-constructed property, includes materials, direct labour and applicable overhead costs. In addition, the Company capitalizes an amount for the cost of funds used to finance construction. This allowance for funds used during construction is based on BC TEL’s regulated rate of return on average invested capital for the previous year, and is included in income as an offset against financing costs. For new telecommunications property, the capitalization rate for 1996 was 8.96% (10.59% – 1995).

The original cost of retired telecommunications property is charged to accumulated depreciation, and any proceeds on disposition are taken into income.

(e) Depreciation Depreciation rates for property are determined by a continuing program of engineering studies for each class of property, according to year of placing in service and estimated useful life. This is in compliance with regulatory requirements. Depreciation provisions are calculated on a straight-line basis incorporating these studies.

(f) Income Taxes The Company and its subsidiaries use the tax allocation basis of accounting for income taxes. Deferred income taxes are provided for on timing differences between accounting income and taxable income.

The Company’s regulated subsidiary, BC TEL, in accordance with industry practice for telephone companies subject to CRTC regulation, follows the liability method of income tax allocation. This method requires that the balance of deferred income taxes be adjusted for changes in tax rates.

(g) **Translation of Foreign Currencies** Trade transactions completed in foreign currencies are reflected in Canadian dollars at the rates prevailing at the time of the transactions. Amounts payable and receivable in foreign currencies are reflected in the consolidated financial statements in equivalent Canadian dollars at the rate of exchange prevailing at the balance sheet date.

(h) **Leases** Leases are classified as capital or operating depending upon the terms and conditions of the contracts.

Where the Company is the lessor, the majority of capital leases are through its subsidiary Telecom Leasing Canada (TLC) Limited, which acts as a financing intermediary. The long-term leases receivable represent the present value of future lease payments receivable due beyond one year. Finance income derived from these financing leases is recorded so as to produce a constant rate of return over the terms of the leases.

Where the Company is the lessee, asset values recorded under capital leases are amortized on a straight-line basis over the term of the lease. Obligations recorded under capital leases are reduced by lease payments net of imputed interest.

Revenue from operating leases of equipment is recognized when service is rendered to customers. The leased equipment is depreciated in accordance with the Company's existing depreciation policy.

(i) **Research and Development** Product development expenditures are expensed unless they meet certain identifiable criteria for deferral.

The amount charged to expense for research, development and improvement of new and existing products and services was \$9.0 million in 1996 (\$8.0 million – 1995).

(j) **Interest Rate Related Contracts** Interest rate related contracts are entered into for risk management purposes. These contracts are accounted for on the same basis as the underlying exposure being hedged.

2. OTHER REVENUES

(Millions)	1996	1995
Service and equipment sales	\$ 268.4	\$ 254.1
Directory advertising and sales	152.3	148.2
Rental revenue	61.4	67.1
Other	11.8	.4
	<u>\$ 493.9</u>	<u>\$ 469.8</u>

3. OTHER INCOME

(Millions)	1996	1995
Lease finance income	\$ 11.1	\$ 8.6
Investment loss	(7.1)	—
Interest income	7.0	1.3
Other, net	(.6)	1.4
	<u>\$ 10.4</u>	<u>\$ 11.3</u>

4. FINANCING COSTS, NET

<i>(Millions)</i>	1996	1995
Interest on long-term debt	\$ 142.3	\$ 129.2
Other interest	3.6	23.8
	145.9	153.0
Less – Allowance for funds used during construction	6.6	10.0
	<u>\$ 139.3</u>	<u>\$ 143.0</u>

5. INCOME TAXES

<i>(Millions)</i>	1996	1995
Current	\$ 233.2	\$ 201.7
Deferred	4.0	(1.3)
	<u>\$ 237.2</u>	<u>\$ 200.4</u>

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	1996	1995
Combined basic federal and provincial statutory income tax rate	45.6%	45.6%
Federal large corporation capital tax	1.0	1.1
Allowance for funds used during construction	.5	.1
Adjustments for prior years	.6	.1
Other	.5	.6
Effective income tax rate per Consolidated Statement of Earnings	<u>48.2%</u>	<u>47.5%</u>

6. ACCOUNTS RECEIVABLE

<i>(Millions)</i>	1996	1995
Trade receivables	\$ 385.3	\$ 355.2
Current portion of leases receivable	36.0	34.4
Other	52.5	57.9
	<u>\$ 473.8</u>	<u>\$ 447.5</u>

7. DEFERRED CHARGES

<i>(Millions)</i>	1996	1995
Workforce transformation costs	\$ 108.7	\$ 32.1
Pension plan contributions in excess of charges to income	48.5	54.6
Cost of issuing debt securities, less amortization	11.1	12.4
Other	26.9	21.9
	<u>\$ 195.2</u>	<u>\$ 121.0</u>

During 1995, BC TEL began a workforce transformation program. As directed by the CRTC, the cost of this program is being amortized to operating expenses over five years. The amount of amortization recorded in 1996 was \$20.9 million (\$.3 million – 1995).

8. INVESTMENTS

(Millions)	1996	1995
Investments carried at cost:		
Alouette Telecommunications Inc.	\$ 25.2	\$ 25.1
Other	.3	3.0
Investments carried at equity	.5	.4
	<u>\$ 26.0</u>	<u>\$ 28.5</u>

9. BUILDINGS, PLANT AND EQUIPMENT, NET

(Millions)	Cost	Accumulated Depreciation	Net Book Value	
			1996	1995
Telecommunications assets	\$ 5,030.8	\$ 2,342.2	\$ 2,688.6	\$ 2,643.7
Assets leased to customers	624.1	271.4	352.7	374.2
Buildings	526.4	190.7	335.7	340.8
Assets under capital lease	64.0	41.6	22.4	34.8
Other	629.7	301.3	328.4	251.0
	<u>\$ 6,875.0</u>	<u>\$ 3,147.2</u>	<u>\$ 3,727.8</u>	<u>\$ 3,644.5</u>

The composite depreciation rate was 7.44% for 1996 (7.20% – 1995).

10. FINANCIAL INSTRUMENTS AND STRUCTURED TRANSACTIONS

The Company and its subsidiaries use various financial instruments which are not reflected on the balance sheet, to reduce or eliminate exposure to interest rate and currency risks, and as part of structured financing.

At December 31, 1996, the total notional amount of derivative financial instruments outstanding was \$394.5 million (\$236.2 million – 1995). The fair market value of these instruments at December 31, 1996 was not significantly different from their original value. Use of these instruments is subject to a derivatives policy which requires that no derivative transaction be effected for the purpose of establishing a speculative or a levered position and sets criteria for the credit worthiness of counterparties with whom the Company may enter into transactions.

The fair market value of commercial paper and leases closely approximates their carrying value. As of December 31, 1996 the estimated fair value of long-term debt exceeded the carrying value by approximately \$275 million.

11. SHORT-TERM OBLIGATIONS

Amounts due for redemption within one year including short-term indebtedness pending permanent financing are as follows:

(Millions)	1996	1995
Notes payable under commercial paper programs	\$ —	\$ 222.9
Current maturities of long-term debt	110.6	24.1
	<u>\$ 110.6</u>	<u>\$ 247.0</u>

At December 31, 1996, \$159.4 million of commercial paper notes and \$20.6 million of current maturities of long-term debt have been classified as long-term debt on the basis of the availability of a \$180.0 million long-term credit facility agreement. In addition, the Company had in place available operating lines of credit of \$270.0 million (total of \$487.5 million – 1995).

12. LONG-TERM DEBT

(a) Details of Long-Term Debt

(Millions)			1996	1995
Series	Rate	Maturity		
BC TELECOM Inc. Debentures				
1	7.25%	July 15, 1998	\$ 175.0	\$ 175.0
BC TEL First Mortgage Bonds				
AF	9 7/8%	November 1, 2003	—	73.5
AK	6%	February 15, 1999	30.0	30.0
AL	11.35%	November 15, 2005	118.8	120.0
AN	10.50%	June 12, 2000	118.8	120.0
			267.6	343.5
BC TEL Debentures				
1	12%	May 31, 2010	50.0	50.0
2	11.90%	November 22, 2015	125.0	125.0
3	10.65%	June 19, 2021	175.0	175.0
4	9.15%	April 8, 2002	85.4	100.0
5	9.65%	April 8, 2022	164.6	150.0
			600.0	600.0
BC TEL Medium Term Note Debentures				
Issued at varying rates of interest up to 9.35% and maturing on various dates up to 2001			326.0	176.0
Commercial paper reclassified under a long term credit facility agreement issued at an average rate of interest of 4.1%			159.4	—
Other Long-Term Debt			6.7	14.9
Capital Leases (NOTE 15C)				
Issued at varying rates of interest up to 11.75% and maturing on varying dates up to 2000			17.4	22.8
Total debt			1,552.1	1,332.2
Less – Current maturities			110.6	24.1
Long-Term Debt			\$ 1,441.5	\$ 1,308.1

(b) BC TELECOM Inc. Debenture Issue Requirements BC TELECOM Inc.'s debentures are issued under a Trust Indenture dated July 15, 1993 and are not secured by any mortgage, pledge or other charge. New issues of unsecured debt are subject to restrictions as to debt ratio and ownership of subsidiary companies. The debentures may not be redeemed prior to maturity.

(c) BC TEL First Mortgage Bond Issue Requirements BC TEL's property is subject to liens under the Deed of Trust and Mortgage dated March 1, 1946 under which the first mortgage bonds are issued. The Deed of Trust and Mortgage requires either an annual sinking fund payment of 1% of the original principal amount of bonds outstanding or the pledge of additional unmortgaged property in the amount of 1.5% of the principal. In 1996, sinking fund payments were made in respect of the Series AL and AN First Mortgage Bonds.

(d) BC TEL Debenture Issue Requirements Debentures are issued under the Trust Indenture dated May 31, 1990 and are not secured by any mortgage, pledge or other charge. While the Trust Indenture is in effect, further issues of first mortgage bonds are not permitted. New issues of unsecured debt are subject to restrictions as to debt ratio and interest coverage as defined in the Trust Indenture.

(e) BC TEL Medium Term Note Debenture Program Under the terms of the medium term note debenture prospectus, a total of \$500.0 million in medium term notes may be issued prior to October 31, 1998. The notes will have maturities, interest rates and other features determined at the time of issue.

(f) Retraction/Exchange Provisions on BC TEL Debt The Series AL Bonds may be redeemed on November 15, 2000 at the specified redemption premium.

The outstanding debentures may not be redeemed prior to maturity.

The Series 4 Debentures are exchangeable, at the holder's option, effective on April 8 of any year during the four-year period from 1996 to 1999, for an equal principal amount of Series 5 Debentures. In 1996, \$14.6 million of the Series 4 Debentures were exchanged for Series 5 Debentures.

(g) Long-Term Debt Maturities Long-term debt maturities, excluding capital lease maturities during each of the next five years are:

(Millions)

1997	\$ 99.7
1998	262.4
1999	105.0
2000	118.8
2001	230.0

13. SHAREHOLDERS' EQUITY

(a) Details of Shareholders' Equity

(Millions)

				1996	1995
Common equity					
123,740,006 shares outstanding without par value (121,578,409 shares – 1995)				\$ 1,194.9	\$ 1,144.6
Retained earnings				957.2	884.5
Contributed surplus				7.3	7.2
				<u>2,159.4</u>	<u>2,036.3</u>
BC TEL Preference and Preferred, cumulative					
		<i>Redemption Premium</i>			
\$ 6.00	Preference	10.0%	.8	.8	
\$ 4.375	Preferred	4.0%	5.3	5.7	
\$ 4.50	Preferred	4.0%	4.8	4.8	
\$ 4.75	Preferred	5.0%	7.1	7.1	
\$ 4.75	Preferred (Series 1956)	4.0%	7.1	7.1	
\$ 5.15	Preferred	5.0%	11.5	11.5	
\$ 5.75	Preferred	4.0%	9.6	9.6	
\$ 6.00	Preferred	5.0%	4.3	4.3	
\$ 1.21	Preferred	4.0%	19.2	19.2	
				<u>69.7</u>	<u>70.1</u>
Total Equity				<u>\$ 2,229.1</u>	<u>\$ 2,106.4</u>

13. SHAREHOLDERS' EQUITY (continued)

(b) **Authorized Capital** BC TELECOM Inc. is authorized to issue an unlimited number of common shares, an unlimited number of first preferred shares and an unlimited number of second preferred shares.

(c) Significant Changes During 1996

Common shares

The Company issued 1,810,440 shares during 1996 (3,462,986 – 1995) for \$42.7 million (\$77.9 million – 1995) through the Dividend Reinvestment and Share Purchase Plan. The Company issued 345,224 shares during 1996 (79,265 – 1995) for \$7.5 million (\$1.7 million – 1995) through the Long-Term Incentive Share Option Plan (LISOP) and 5,933 shares during 1996 for \$.1 million through the BC TELECOM Share Option Plan.

(d) **Common Shares Reserved** At December 31, 1996 the following shares remained reserved:

- 1,429,710 shares for issuance under the Dividend Reinvestment and Share Purchase Plan. The current purchase price for the plan is based on the average weighted cost of shares purchased in the open market, excluding any brokerage commissions, or, at the Company's discretion, the average market price in the calendar month immediately preceding the investment date.

- 857,114 shares under the LISOP. Under the terms of the LISOP, the Company has granted key employees options to purchase common shares at fixed exercise prices as follows:

Year Options Granted	Options Granted	Options Outstanding	Exercise Price
1995	395,300	331,933	\$ 24.25
1994	293,756	221,406	23.75 - 26.25
1993	444,300	138,625	19.25 - 21.25
1992	263,725	93,625	19.375 - 22.125
1991	270,600	50,500	20.00

- 1,994,067 shares under the BC TELECOM Option Plan introduced in 1995:

Year Options Granted	Options Granted	Options Outstanding	Exercise Price
1996	427,200	427,200	\$ 25.25 - 25.50
1995	213,300	195,500	23.125 - 24.25

Options granted may be exercised over specific periods not to exceed 10 years from the date granted.

14. WORKING CAPITAL

Decrease in non-cash working capital:

(Millions)	1996	1995
Accounts receivable	\$ (26.3)	\$ 10.6
Prepaid expenses and other	(12.3)	(10.4)
Accounts payable and accrued liabilities	79.8	49.2
Income taxes payable	(47.0)	72.3
Dividends payable	1.9	2.3
Advance billings and customer deposits	4.1	3.2
	<u>\$.2</u>	<u>\$ 127.2</u>

15. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The Company estimates capital expenditures for additional property to be \$630 million in 1997. Substantial purchase commitments have been made in connection with these expenditures.

(b) The Company is committed to a \$10 million contribution to the BC TELECOM Innovation Fund which is intended to benefit British Columbians from opportunities offered by the production of traditional broadcast and innovative multimedia programming.

(c) The Company occupies leased premises in various centres and has land, buildings and equipment under operating leases.

At December 31, 1996, the future minimum lease payments under capital leases and operating leases were:

(Millions)	Capital Leases	Operating Leases
1997	\$ 7.8	\$ 14.7
1998	6.9	12.5
1999	4.2	10.4
2000	1.0	7.9
2001	—	6.1
Thereafter	—	119.9
Total future minimum lease payments	19.9	\$ 171.5
Less imputed interest	2.5	
Capital lease liability	\$ 17.4	

16. PENSION PLANS

Pension plans are maintained for substantially all employees. The Telecommunications Workers Union sponsored pension plan for bargaining unit employees requires the Company to contribute a fixed percentage of employee gross earnings to trust funds.

Actuarial valuations are prepared for Company sponsored plans and the Company pays into trust funds the amounts recommended by the actuary.

Accrued pension costs for accounting purposes are determined in accordance with generally accepted accounting principles, using management's best estimate assumptions of future events. Adjustments arising from plan amendments, changes in assumptions, experience gains and losses and the initial net plan assets and obligations are amortized over the expected average remaining service life of the employee group covered by the plans. The cumulative difference between the amount contributed to the pension plans and the amount charged to income is recorded in the consolidated balance sheet under deferred charges.

Based on the actuarial reports of the Company-sponsored pension plans, which used projected employee earnings in estimating the accrued pension obligations and market related value for asset valuation, a comparison of the plan assets and plan obligations projected to December 31, 1996 has been estimated as follows:

(Millions)	1996	1995
Actuarial value of assets	\$ 852.3	\$ 793.1
Actuarial value of obligations	802.3	788.1
Surplus	\$ 50.0	\$ 5.0

The total pension expense amounted to \$57.5 million in 1996 (\$63.3 million – 1995).

17. RELATED PARTY TRANSACTIONS

Transactions with related parties, primarily affiliates of GTE Corporation (parent company of Anglo-Canadian Telephone Company of Montreal, the Company's principal shareholder) and Stentor Resource Centre Inc., were purchases and sales of telecommunications technology, equipment and supplies, directory advertising commissions and payments for services rendered under cost-sharing agreements. During the year the Company purchased goods and services from related parties amounting to \$101.5 million (\$104.1 million – 1995). Sales to related parties amounted to \$4.1 million (\$3.6 million – 1995). These transactions were conducted in the normal course of business at prices established and agreed to by both parties.

18. DISCONTINUED OPERATIONS

In April 1995, the Company's R&D subsidiary, MPR Teltech Ltd., sold its investment in PMC-Sierra, Inc. for a net gain of \$27.4 million, and cash proceeds to the Company of \$20.0 million.

In 1996, the Company sold substantially all remaining business units of MPR Teltech Ltd. Accordingly, the results of operations, any realized gains on sale and all estimated costs of disposition have been accounted for on a discontinued basis and previously reported financial statements have been restated. The remaining assets have been segregated on the consolidated balance sheet under the caption "Net assets of discontinued operations". Details of these assets are as follows:

<i>(Millions)</i>	1996	1995
Buildings, plant and equipment, net	\$ 8.3	\$ 14.2
Current assets	30.4	40.3
Other assets	3.5	9.4
Long-term debt	(.2)	(.3)
Current liabilities	(27.2)	(32.6)
Deferred income taxes	(5.3)	(8.2)
	<u>\$ 9.5</u>	<u>\$ 22.8</u>

19. SUBSEQUENT EVENT

In January 1997, BC TEL executed structured financings whereby BC TEL issued two medium term note debentures for \$20 million each with initial coupons of 6% and initial maturity dates in 1999 and 2001.

20. PRIOR YEAR PRESENTATION

The 1995 amounts have been reclassified, where applicable, to conform with the 1996 presentation.

	1996	1995	1994	1993	1992
CONSOLIDATED STATISTICS					
Statement of Earnings (Millions)					
Operating revenues	\$ 2,517.2	\$ 2,324.6	\$ 2,230.1	\$ 2,145.8	\$ 2,002.4
Local service	1,217.5	1,033.4	909.6	867.0	778.2
Long distance service	805.8	821.4	915.3	977.4	898.4
Other	493.9	469.8	405.2	301.4	325.8
Operating expenses	1,896.5	1,771.1	1,675.4	1,610.6	1,489.5
Financing costs, net	139.3	143.0	139.3	146.6	143.8
Income taxes	237.2	200.4	203.6	197.7	177.4
Earnings from continuing operations	251.2	218.2	221.3	212.5	204.3
Net earnings	237.9	243.8	224.5	214.6	205.7
Common share earnings	234.4	240.3	219.8	205.8	196.7
Balance Sheet (Millions)					
Property, plant and equipment, at cost	\$ 7,099.0	\$ 6,708.6	\$ 6,321.0	\$ 5,849.9	\$ 5,454.6
Accumulated depreciation	3,147.2	2,825.7	2,593.3	2,311.0	2,070.7
Total capitalization	3,787.3	3,666.9	3,573.1	3,335.7	3,262.0
Capital structure					
Short-term obligations	2.9%	6.7%	10.3%	4.0%	9.3%
Long-term debt	38.1%	35.7%	35.4%	40.0%	37.5%
Preference and preferred shares	1.8%	1.9%	2.0%	4.2%	4.5%
Common equity	57.2%	55.7%	52.3%	51.8%	48.7%
Financial					
Earnings per common share - continuing operations	\$ 2.01	\$ 1.78	\$ 1.85	\$ 1.79	\$ 1.77
Earnings per common share	\$ 1.90	\$ 2.00	\$ 1.88	\$ 1.81	\$ 1.78
Dividends declared per common share	\$ 1.31	\$ 1.27	\$ 1.23	\$ 1.19	\$ 1.15
Cash flow per common share - continuing operations	\$ 6.18	\$ 5.59	\$ 5.24	\$ 5.33	\$ 4.58
Common equity per share	\$ 17.45	\$ 16.75	\$ 15.84	\$ 14.99	\$ 14.22
Return on common equity - continuing operations	11.8%	10.9%	12.0%	12.3%	12.9%
Return on common equity	11.2%	12.2%	12.2%	12.4%	13.0%
Interest coverage - continuing operations (Times)	4.3	3.7	3.8	3.6	3.4
Interest coverage (Times)	4.1	3.9	3.9	3.6	3.4
Average shares outstanding (Thousands)	123,445	120,342	117,028	113,760	110,499
Other					
Capital expenditures, gross (Millions)	\$ 590.0	\$ 597.8	\$ 607.9	\$ 512.5	\$ 467.0
Customer access lines in service (Thousands)	2,423	2,335	2,264	2,172	2,080
Long distance switched conversation minutes (Millions)	2,586	2,627	2,612	2,456	2,301
Regular full-time employees at year end	12,356	13,851	13,797	13,478	14,524
CELLULAR OPERATIONS STATISTICS					
Customers	300,507	218,806	148,062	106,582	81,344
Penetration rate	9.0%	6.8%	4.7%	3.7%	3.1%
Estimated market share	60%	60%	57%	56%	56%
Average monthly revenue per customer	\$ 80	\$ 88	\$ 95	\$ 95	\$ 94
Cash flow margin	50%	51%	51%	49%	46%
Net earnings (Millions)	\$ 45.0	\$ 34.8	\$ 24.6	\$ 16.8	\$ 10.4
Gross plant in service per customer	\$ 1,038	\$ 1,143	\$ 1,360	\$ 1,479	\$ 1,479
Monthly deactivations (Churn rate)	1.4%	1.5%	1.5%	1.6%	1.7%
OTHER STATISTICS					
Paging operations					
Number of pagers	102,371	88,717	75,963	66,657	59,577
Cash flow margin	40%	38%	40%	41%	38%

NOTE: Prior period statistics have been reclassified, where significant, to conform with the 1996 presentation.

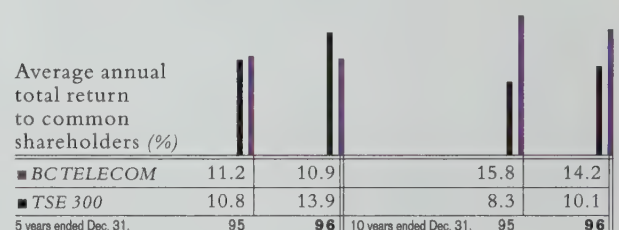
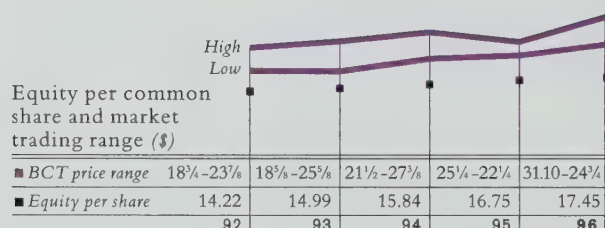
INVESTOR INFORMATION

	Three Months Ended				
(Millions)	Mar. 31	June 30	Sept. 30	Dec. 31	1996
QUARTERLY FINANCIAL DATA					
Operating Revenues	\$ 603.3	\$ 621.1	\$ 635.9	\$ 656.9	\$ 2,517.2
Operating Expenses	458.0	468.3	470.0	500.2	1,896.5
Operating Earnings	145.3	152.8	165.9	156.7	620.7
Other income	4.3	2.8	7.0	(3.7)	10.4
Financing costs, net	34.5	33.9	36.3	34.6	139.3
Earnings Before Income Taxes and Minority Interest	115.1	121.7	136.6	118.4	491.8
Income taxes	55.8	58.9	65.2	57.3	237.2
Earnings Before Minority Interest	59.3	62.8	71.4	61.1	254.6
Minority interest	.8	.9	.8	.9	3.4
Earnings from Continuing Operations	58.5	61.9	70.6	60.2	251.2
Net loss from MPR Teltech Ltd.	(2.0)	(2.7)	(5.2)	—	(9.9)
Net (loss) gain on disposition of MPR Teltech Ltd. and PMC-Sierra, Inc.	—	(4.0)	.6	—	(3.4)
Net Earnings	56.5	55.2	66.0	60.2	237.9
Preference and preferred share dividends	.9	.9	.8	.9	3.5
Common Share Earnings	\$ 55.6	\$ 54.3	\$ 65.2	\$ 59.3	\$ 234.4
Earnings Per Common Share (\$)					
Earnings from continuing operations	.47	.49	.57	.48	2.01
Common share earnings	.45	.44	.53	.48	1.90
Average Common Shares Outstanding (Thousands)	122,813	123,586	123,722	123,815	123,445

COMMON SHARE STATISTICS

	1996	1995
Number of registered common shareholders	12,347	12,551
Number of shares outstanding at December 31	123,740,006	121,578,409
Volume of shares traded	12,196,600	12,313,900
The Toronto Stock Exchange price range (high-low)		
First Quarter	\$ 26 ⁷ / ₈ - 24 ³ / ₄	\$ 25 ¹ / ₄ - 22 ¹ / ₄
Second Quarter	27 - 25	24 ¹ / ₂ - 22 ⁷ / ₈
Third Quarter	28.20 - 26.35	24 ⁵ / ₈ - 23 ¹ / ₄
Fourth Quarter	31.10 - 26.95	25 ¹ / ₄ - 23

Geographic Distribution (%)	Shareholders		Shares	
	1996	1995	1996	1995
British Columbia	58.4	57.0	6.1	6.4
Other Canadian	39.6	41.0	92.4	92.1
Foreign	2.0	2.0	1.5	1.5



Principal Ownership

At December 31, 1996, Anglo-Canadian Telephone Company of Montreal (common shares 100% owned by GTE Corporation) owned 62,725,670 shares, or 50.7% of the total common shares outstanding.

Dividend Reinvestment and Share Purchase Plan

The Company maintains a plan whereby holders of all classes of shares can elect to acquire common shares through automatic reinvestment of dividends and investment of optional contributions of up to \$20,000 per calendar year for the purchase of additional common shares. Further information is available by contacting Montreal Trust Company.

Common Share Dividends

Dividends are payable quarterly on the first day of January, April, July and October. In 1996, dividends declared amounted to \$.32 per share for the first quarter, increasing to \$.33 for the second, third and fourth quarters, for an annual total of \$1.31.

Direct Deposit Service

Holders of all classes of shares can have their dividends deposited directly to their bank accounts. To utilize this service, contact Montreal Trust Company.

Market Trading

Shares are listed for trading on the Toronto, Montreal and Vancouver Stock Exchanges. The common share symbol is BCT.

Transfer Agent And Registrar

Montreal Trust Company

Duplicate Annual Reports

Every effort has been made to eliminate duplications in our shareholders' mailing list. However, if you have more than one holding you will receive a separate report for each registration unless your shares are registered under exactly the same name.

Annual Meeting

BC TELECOM's multi-site Annual General Meeting of Shareholders will be held Tuesday, April 22, 1997, concurrently at 10:00 a.m. Pacific time and 1:00 p.m. Eastern time at the Robson Square Conference Centre, 800 Robson Street, Vancouver, B.C. and at the Metro Toronto Convention Centre, 255 Front Street West, Toronto, Ontario.

Investor Inquiries

For information concerning change of address, transfer of shares, lost certificates, estate settlements, the Dividend Reinvestment and Share Purchase Plan, direct deposit of dividend payments, the elimination of multiple mailings or the receipt of annual and quarterly reports, please contact Montreal Trust Company:

By mail:

Montreal Trust Company
Shareholder Communications
510 Burrard Street
Vancouver, B.C. V6C 3B9

By telephone:

604-661-0222 for the Vancouver area or outside Canada.
1-800-380-7757 for elsewhere in Canada.

For additional financial information,
please call our Investor Relations Department:

604-432-2413 in the Vancouver area or outside Canada.
1-888-228-4636 elsewhere in Canada.

For Your Information

For general information about BC TELECOM,
please call our Corporate Communications Department:

604-432-2668

Our fax number is:

604-433-1241

Our Internet address is:

<http://www.bctel.com>

If you'd like to give us feedback on our annual report,
our e-mail address is:

a_report@bctel.com

Dorothy E. Byrne QC

*Vice-President
Law and Regulatory
Affairs and Corporate
Secretary*
BC TEL
BC TELECOM INC.

Don A. Calder

*Executive Vice-President
Network Services*
BC TEL
BC TELECOM INC.

Brian A. Canfield

*Chairman and Chief
Executive Officer*
BC TEL
BC TELECOM INC.

Rob G. Cruickshank

*President and Chief
Operating Officer*
BC TEL MOBILITY

C. Ken Crump

*Executive Vice-President
Corporate Services and
Chief Financial Officer*
BC TEL
BC TELECOM INC.

Ian D. Mansfield

*Vice-President
Local Services*
BC TEL



Nadir H. Mohamed

Treasurer
BC TEL
BC TELECOM

Roy A. Osing

*Vice-President
Long Distance Services*
BC TEL

Jim W. Peters

*Vice-President
Corporate Planning and
Mergers & Acquisitions*
BC TELECOM INC.

Fares F. Salloum

*Executive Vice-President
Communication Services*
BC TEL
BC TELECOM INC.

Paul D. Smith

*Vice-President
Human Resource
Consulting Services*
BC TEL

Gayle L. Stewart

*Vice-President
Corporate
Communications*
BC TEL

BC TELECOM INC. AND BC TEL DIRECTORS

Brian A. Canfield
*Chairman and Chief
Executive Officer*

G.N. (Mel) Cooper
CM, OBC
*President, Seacoast
Communications
Group Inc.
Victoria, B.C.*

David L. Emerson
*President and Chief
Executive Officer
Vancouver International
Airport Authority
Richmond, B.C.*

**M. Rendina K.
Hamilton QC, OBC**
*Corporate Director
Kelowna, B.C.*

Robert H. Lee OBC
*President, Prospero
Group of Companies
Vancouver, B.C.*

**Gordon F.
MacFarlane OBC**
*Corporate Director
Burnaby, B.C.*

Michael T. Masin
*Vice-Chairman
and President -
International
GTE Corporation
Stamford, Connecticut*

John W. Pitts
*Corporate Director
Vancouver, B.C.*

Barbara J. Rae
CM, OBC
*Corporate Director
West Vancouver, B.C.*

Thomas W. White
*President
GTE Telephone
Operations Group
Irving, Texas*

W. Robert Wyman
*Corporate Director
West Vancouver, B.C.*

we make it easy
for people
to communicate

share an opinion





get connected

More than 97 per cent of our customers are now served by digital switching, giving them access to the latest calling features. No matter where they live.

We're constantly working to expand and upgrade our telecommunications network.



call home

Wherever our customers call home
we have a long-distance calling
plan to fit their calling needs.
Our long-distance promotions,
savings events, and calling cards
add up to convenience and savings.



pay your bills

Bank on your own time. Anytime. We teamed up with VanCity to offer a complete line of home banking services that customers access by telephone or personal computer. Welcome to Canada's first virtual bank.



Our new digital cellular data network gives police forces in Delta and Saanich an edge in the fight against crime.

Officers run licence plates, access police files and write reports — all from computer laptops in their cruisers. A communication system that's fast, reliable and secure.



get the facts

stay in touch

